Afghanistan Reconstruction Trust Fund:

External Evaluation

Final Report

Scanteam
Analysts and Advisers

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Acronyms and Abbreviations

AC	Afghanistan Compact
ADB	Asian Development Bank
ADF	Afghanistan Development Forum
ADTF	Afghanistan Development Trust Fund (proposal)
AEP	Afghanistan Expatriate Project
AFMIS	Afghanistan Financial Management Information System
AFN	Afghanistan Afghani (national currency)
AIA	Afghan Interim Authority
ANDS	Afghanistan National Development Strategy
ARDS	Afghanistan Reconstruction Development Services
AREU	Afghanistan Research and Evaluation Unit
ARTF	Afghanistan Reconstruction Trust Fund
ATA	Afghan Transitional Authority
CAO	Control and Audit Office
CAWSS	Central Authority for Water Supply and Sewerage
CD	Capacity Development
CDC	Community Development Committee
CLDD	Community Led Development Directorate (MRRD)
DAB	Da Afghanistan Bank (Central Bank)
DAD	Donor Assistance Database
DFID	Department for International Development
EITI	Extractive Industries Transparency Initiative
EQUIP	Education Quality Improvement Program
GoA	Government of Afghanistan
IARCSC	Independent Administrative Reform and Civil Service Commission
IDB	Islamic Development Bank
IMF	International Monetary Fund
IP	Implementing Partner (NRAP)
KM	Kabul Municipality
LEP	Lateral Entry Program
LOTFA	Law and Order Trust Fund of Afghanistan
MAC	Ministerial Advisory Committee (for Administrative Reforms)
MC	Management Committee (ARTF)
MISFA	Microfinance Investment Support Facility for Afghanistan
MIWRE	Ministry of Irrigation, Water Resources and Environment
MinAg	Ministry of Agriculture
MinEd	Ministry of Education
MoE	Ministry of Economy
MoF	Ministry of Finance
MoH	Ministry of Health
MoWP	Ministry of Water and Power

MPW	Ministry of Public Works
MRRD	Ministry of Rural Rehabilitation and Development
MSC	Management Support Consultant (NSP)
MUDH	Ministry of Urban Development and Housing
NDF	National Development Framework
NDP	National Development Program (components of NDF)
NGO	Non-Governmental Organization
NPP	National Priority Program
NRAP	National Rural Access Program
NSP	National Solidarity Program
O&M	Operations and Maintenance
PAM	Performance Assessment Matrix
PAREM	Public Administration Reform and Economic Management (program)
PDCU	Program Development and Coordination Unit (NRAP)
PFM	Public Finance Management
PIU	Project Implementation Unit
PRR	Priority Reform and Reconstruction (program/decree)
PRS/P	Poverty Reduction Strategy (Paper)
PTA	Parent Teacher Association (EQUIP)
SAF	"Securing Afghanistan's Future"
SMC	School Management Committee (EQUIP)
SY	Solar Year
TA	Technical Assistance
UNAMA	United Nations Assistance Mission to Afghanistan
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNOPS	United Nations Office for Project Services
USD	United States Dollar
VCA	Vulnerability to Corruption Assessment
VPP	Verified Payroll Project
WB	World Bank

Exchange rate:

USD 1 = AFN 50 (approximate rate, March 2008)

Solar Year (SY):

Afghanistan's fiscal year, the Solar Year (SY), begins around March 20 each year:

SY 1384 = 21 March 2005 – 20 March 2006

SY 1385 = 21 March 2006 – 20 March 2007

SY 1386 = 21 March 2007 – 20 March 2008

SY 1387 = 21 March 2008 – 20 March 2009

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 is if the ARTF is a relevant forum for assessing alternative political and delivery partnerships that can link development financing with security needs.

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.

Revenue has been growing even faster than the economy, and the MTFF 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.

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.

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 re-structuring 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:

- 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

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;

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.

2 Background and Introduction

The Afghanistan Reconstruction Trust Fund (ARTF) is a multi-donor trust fund (MDTF) administered by the World Bank and funded by 27 donors. Since it was established six years ago, it has mobilized over USD 2.4 billion by the end of Solar Year (SY) 1386 (March 2008), including USD 60 million committed in SY 1386 though only paid in SY 1387. The ARTF is 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. Eleven ongoing investment projects, covering infrastructure, rural development, technical assistance (TA), capacity development, and education have been approved with a total commitment of nearly USD 752 million (see table 4.3).

The ARTF was designed as a mechanism for providing coordinated funding for reconstruction activities in line with agreed priorities of the Government while promoting transparency and accountability. The ARTF reinforces the national budget as the vehicle for aligning the reconstruction program with national objectives; reduces the burden on limited government capacity as it supports capacity building over time; partially funds essential recurrent budgetary expenditures required for the government to function effectively; and provides a convenient mechanism for donors to fund government's priority investments.

2.1 Objectives of the Study

The overall objective of this evaluation is to develop recommendations on how the ARTF can be improved. This process involves an assessment of the performance of the ARTF since a previous review carried out early 2005. This is done in terms of Relevance, Effectiveness, Efficiency, Impact, Institutional Arrangements, and Sustainability. Across all categories the evaluation should check whether the recommendations of the previous review have been implemented. It is expected that these findings will inform the development of recommendations for future improvement.

The review is in particular to make recommendations regarding three core concerns:

- The need for adaptation of ARTF operations to the changing demands of political actors, economic circumstances and rising insecurity in Afghanistan. In addition, prepare the ARTF for its future role of channeling resources towards ANDS priorities;
- The ARTF's relation to key sectors and the potential for a more strategic vision of sector prioritization;
- The ARTF's contribution to transitioning the Government away from a reliance on donors to fund recurrent expenditures and the concomitant transition in ARTF priorities towards investment and sectoral/programmatic expenditure.

The complete Terms of Reference (TOR) for this review are attached as Annex A.

2.2 Methodology

The evaluation began with a one-week preparatory visit to Kabul 26 January-2 February by the team leader. During this period, meetings were held with key stakeholders: World Bank task team leaders (TTLs), central government offices and project implementers, the Monitoring Agent for the recurrent cost component, UN system, and donors.

The consultants from the local partner Aatie Consulting participated in these meetings, allowing the team to discuss approach and information gathering instruments. A joint debriefing was held with the ARTF donors and the World Bank on 31 January.

During February, the document review was carried out and preparations made for the main field work. This took place between 1-15 March in Kabul, where the six consultants were divided into three teams, each consisting of one member from Scanteam and one from Aatie Consulting. One team focused on community development activities, the second on capacity development and infrastructure, and the third on the recurrent cost window and overall framework conditions, with considerable "cross-assisting" on a number of issues.

While the team was not expected to carry out in-depth project evaluations, it was asked to look more fully at five projects: the National Solidarity Program (NSP), National Rural Access Program (NRAP), microfinance (MISFA), Urban Water Supply and Sanitation (UWSS), and capacity building in the public sector. Four instruments were used for assessing projects in the investment window: (i) project documents produced by the Administrator and implementing agents, (ii) existing independent project evaluations, (iii) standardized project assessment forms, and (iv) and informant interviews.

The project forms were prepared by the teams to ensure that the questions in the TOR were addressed in a consistent manner by all. The forms were filled in with information from project documents and evaluations and then cross-checked in the field. After the field work, draft forms were shared with project Task Team Leaders (TTLs) and local project staff to identify and correct factual mistakes and misunderstandings. These forms are attached as Annexes D-H, and constitute an important empirical basis for parts of the report.

The TOR asked that this review cover the period after the previous evaluation of early 2005. In most cases the team had to go back further than that in order to get the background for choices made and a more correct view of trends and changes. In some cases early documentation could not be identified, but it is the team's view that this has not posed a problem in terms of main findings and conclusions.

Rather than looking at individual project results *per se,* the project reviews were to inform the analysis of the larger ARTF portfolio and performance. One issue is the extent to which the projects can be seen to address central objectives of the ARTF, another is the degree to which performance has been monitored and the Administrator has taken appropriate action if and when problems arose. The overall balance of the portfolio and how it has changed over time and in response to what concerns are other issues that the team has tried to address, using the methodology and criteria as laid out in the TOR (Annex A).

The team underlines that the informants for projects assessment were largely actors engaged in implementing and monitoring the projects, and not the intended beneficiaries. The team recognizes that this represents a bias in terms of assessing actual results from the projects.

2.3 Report Structure

This report contains six substantive chapters and eight annexes:

- Chapter 3 provides the background to the ARTF and its current structure;
- Chapter 4 looks at the changing framework conditions for the ARTF and presents some possible consequences for the ARTF;

- Chapter 5 examines the macro-economic picture and the Government of Afghanistan's (GoA) own revenue raising efforts; the ARTF funding of recurrent costs; the role and results of the Monitoring Agent; before discussing some options for the future;
- Chapter 6 discusses community-based development (CBD) projects, and looks at these in light of the changing national framework conditions, in particular the challenges of rural governance, local livelihoods and stabilization;
- Chapter 7 reviews the other areas funded over the ARTF Investment Window: capacity development and infrastructure, as well as looking at the pipeline;
- Chapter 8 looks ahead, suggests a transformation of the ARTF into an Afghanistan Development Trust Fund, the reasons for it, the restructuring of the funding this may entail with suggestions for areas for financing, and some implications of this for donor engagement and overall results management.

The annexes are:

- Annex A: The Terms of Reference for this review;
- Annex B: List of Informants;
- Annex C: Documents Consulted;
- Annex D: National Solidarity Program;
- Annex E: National Rural Access Program;
- Annex F: Microfinance Investment Support Facility;
- Annex G: Capacity Development Projects;
- Annex H: Urban Water Supply and Sanitation.

2.4 Review Team

The study was carried out by a team of six consultants, three from Scanteam of Oslo, and three from Aatie Consulting of Kabul, with the quality assuror also from Scanteam.

Scanteam has been responsible for management of the process, the production of the reports, and quality assurance. Scanteam was furthermore responsible for methodology and much of the literature review, while Aatie Consulting took responsibility for many of the local interviews and for the field work.

2.5 Acknowledgements and Disclaimer

The review team had to rely heavily on the time and support from a wide range of persons. The team would like to thank in particular staff at the ARTF Management Unit, headed by Mr. Hugh Riddell, and World Bank support staff, in particular Ms. Shekeba Muheb and Mr. Edreess Sahak, whose continued assistance made this mission possible.

The team was met, without exception, by a very positive and forthcoming attitude by World Bank staff, national authorities, donor representatives, project management and implementing partners, for which we are extremely grateful.

This Report is the responsibility of the consultants and does not necessarily reflect the views of the World Bank, the Government of Afghanistan, or any other organization or informant referred to.

3 ARTF and Framework Conditions

The international community intervened in Afghanistan in the fall of 2001. It was clear that large-scale financial and technical assistance would be required to support the new national authorities. This was both to address the physical reconstruction of the country, but also to support a government that could bring stability and longer-term socio-economic development to the country.

A first donors' conference took place in Islamabad at the end of November 2001, followed by meetings early 2002 in Brussels and Tokyo that endorsed the idea of setting up the Afghanistan Reconstruction Trust Fund (ARTF) with the World Bank as administrator.

The ARTF was formally established in March 2002 and began operating in late May. The original intention was to provide support for the first several years, until the government was able to mobilize own revenues to cover its recurrent budget. The ARTF closing date was therefore first set to be 30 June 2006, but in June 2004 donors agreed to postpone this to 30 June 2010. At a Donors Committee meeting in October 2007, a new deadline of 30 June 2020 was proposed and later formally endorsed, so this is now the foreseen closing date.

The ARTF is to be guided by the Afghan authorities' development priorities and the agreements that have been reached between the international community and Afghanistan. But as with other post-conflict states, there have been a series of transitional phases and thus changing national development strategies that the ARTF has had to relate to.

3.1 Changing Authorities and Strategic Frameworks

The starting point was the *Bonn Agreement* signed in December 2001. It defined the political process to be followed for putting in place legitimate political authority. An Afghan Interim Authority (AIA) was established, replaced six months later by the Afghan Transitional Authority selected by the Emergency Loya Jirga in June 2002. The transitional phase was finalized with the Presidential elections in October 2004 and Parliamentary elections in September 2005.

The AIA presented a National Development Framework (NDF) in early 2002 as the country's first strategic vision. It contained 16 National Development Programs (NDPs) and six cross-cutting issues as the basis for the country's development. As a further prioritization, the NDF identified six National Priority Programs that were to be given preference.

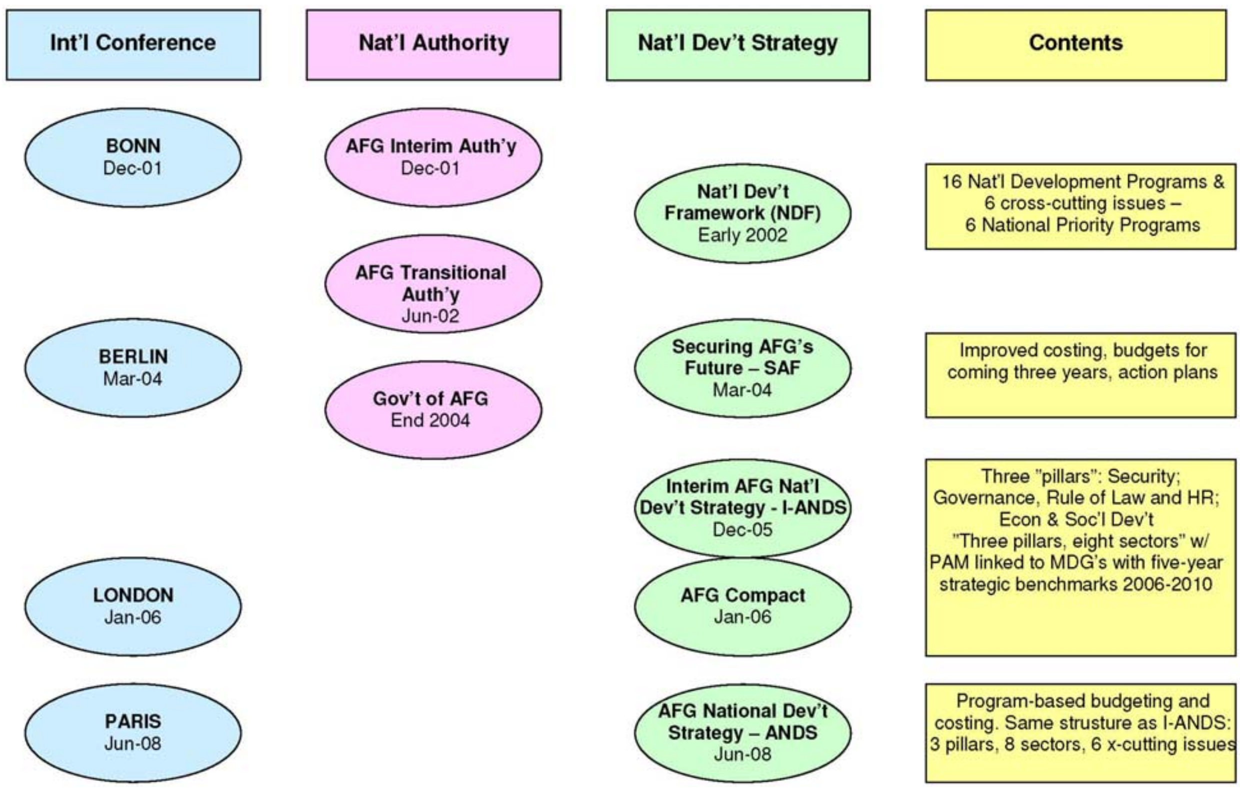
At the Berlin meeting in March 2004, the NDF was followed up with the document "Securing Afghanistan's Future" (SAF) that estimated the funding needs for the following three years. During the meeting, the parties signed the *Berlin Agreement* where the donor community committed itself to supporting the government's development efforts as laid out in the SAF and the government's accompanying Work Plan.

At the London Conference in January 2006, the GoA presented its *Interim Afghanistan National Development Strategy* (I-ANDS). This was a five-year development strategy and interim Poverty Reduction Strategy Paper (PRSP) for the period SY 1385-1389 (April 2006-March 2011). It is based on three pillars: Security; Good Governance, Rule of Law and Human Rights; and Economic and Social Development. This is presented in the form of eight sectors – one each for the first two pillars, while the last one is broken down into six more classic development sectors. The I-ANDS incorporates the Government's objective of achieving the Millennium Development Goals (MDGs) in Afghanistan by 2020.

At the same time, the donor-developed *Afghanistan Compact* (AC) was approved. It is a five-year framework for cooperation among GoA, the UN and the donors. It contains the Compact Benchmarks against which progress is to be monitored. The Compact was seen as a joint commitment by the parties to Afghanistan's future, with both parties pledging to improve their performance. Donors were to channel an increasing share of their resources through the Government's Core budget. They were to provide more funding through multi-year predictable commitments and improve the reporting on the resources that were still going outside the GoA budget in order to allow the authorities the basis for better overall planning and monitoring. And they were to strengthen support for long-term sustainable institutional development. The authorities were to increase domestic revenue, address corruption seriously, improve transparency in government decisions, and move ministries towards setting and achieving monitorable objectives

The I-ANDS is closely aligned with the AC, where Compact benchmarks are also I-ANDS strategic objectives. Together the two documents thus represent a coherent and quite operational strategy. Figure 3.1 gives an overview of the processes, bodies and instruments.

Figure 3.1: Key Bodies, Meetings and Strategies, Afghanistan's Development, 2001-2008



3.1.1 Joint Coordination and Monitoring Board

The Afghanistan Compact established the *Joint Coordination and Monitoring Board* (JCMB) to oversee and report on AC progress. The JCMB is jointly chaired by the GoA and the UN on behalf of the international community, and includes not only government representatives and donor community but also the security sector actors. It thus has a wide composition and can hence address the larger vision as presented in the I-ANDS:

> "*Our vision for the Islamic Republic of Afghanistan is to consolidate peace and stability through just, democratic processes and institutions, and to reduce poverty and achieve prosperity through broad-based and equitable economic growth*".

3.1.2 Afghanistan Development Forum

The Afghanistan Development Forum (ADF) is an annual meeting of the national authorities and its international partners to present and discuss progress regarding Afghanistan's development efforts. It has been organized four times since the Bonn Agreement – in 2003, 2004, 2005 and 2007. There was no separate meeting in 2006 since the London Conference substituted for a separate ADF, and the June 2008 meeting in Paris similarly.

The ADF meetings typically discuss progress reports, look at future funding needs and donor pledges, and discuss government plans and strategies on particular issues. At the most recent one, in June 2008 in Paris, the authorities presented the complete ANDS for discussion with the donor community.

The ADF can thus be considered the highest-level forum for policy dialogue and funding coordination regarding Afghanistan's development efforts, while the JCMB has a more continuous dialogue, monitoring and reporting function.

3.2 ANDS and National Priorities

The Afghanistan National Development Strategy, ANDS, is an elaboration of the I-ANDS. A consultative process was carried out during 2007, both throughout the country but also with all the line ministries (though there is considerable criticism concerning the content and thus value of these consultative processes). The first ANDS draft, of nearly 400 pages, was produced in February 2008. The complete document was then prepared in time for the international donors' conference in Paris in June 2008.

The ANDS maintains the structure of the I-ANDS with three pillars, eight sectors and six cross-cutting themes. The one minor change regarding the ANDS focus is that, in recognition of the importance of the MDGs, "poverty reduction" is included as part of the overarching title of the ANDS.

The document provides an overview of the background to the ANDS, including the recent history and current poverty profile. The subsequent chapters deal with the development objectives the GoA has set for itself, and the framework conditions under which they must work, including external aid. Finally come the sectoral strategies and the cross-cutting issues that will be addressed along with how progress will be monitored.

In addition to the main document, a series of particular issues have been addressed through somewhat longer annexes, such as for capacity development. This gives further documentation and justification for choices made.

An important difference between the I-ANDS and the ANDS is that the latter is a much clearer program-based document. This is reflected in two ways. The first is that the sector strategies are better specified in terms of expected results. The other is that the key programs are to be fully costed. This will allow the authorities to show how they intend to allocate own resources across their stated priorities. In the first version of the document, three sectors – roads, health and education – have had their programs costed out.

The ANDS is, however, a comprehensive document that covers the entire public sector effort. The ANDS therefore covers and is intended to guide also those activities funded with external resources, including the overwhelming share of donor funding that is still planned and spent outside the public budget and accounting system. The ANDS is thus an important political document. It strengthens the authorities' argument with the international community for improving the alignment of their resources with what the national authorities – in consultation with own constituencies but also with its external development partners – have decided are the country's primary concerns.

The document is furthermore in line with the Paris Aid Effectiveness agenda. It focuses on stronger national ownership and leadership by providing a politically approved strategy and program that is to be built on solid technical foundations. It focuses on managing for results by having the sector strategies concretized through programs with monitorable objectives. It is providing a coherent and comprehensive planning and budgeting tool that can improve overall resource effectiveness through better alignment, government-donor harmonization and inter-donor coordination. It provides the basis for mutual accountability as both public revenue and donor resources can be accounted for against results achieved. Instruments like the Medium-term Fiscal Framework (MTFF) improve the potential for enhanced predictability of donor resources, accountability of own efforts in fields like revenue mobilization, and makes the overall public sector funding picture better available and thus open to public scrutiny and debate in a way that is quite novel to the country.

The credibility of the ANDS as a *programming* instrument hinges to a large extent on the quality and comprehensiveness of the costing exercises. During the first discussions between the authorities and the donors in February 2008, this was admitted as a problematic area. One thing is that this is the first time Afghanistan has engaged in such a complex exercise. Carrying out such costings are time- and skills-intensive, and the staff levels and time available was insufficient. There were problems hiring the external advisory services, so some of the work was not possible to implement as planned. The informational/statistical base is weak in many areas, so realistic costing is problematic, and this is of course made much more complicated by the deteriorating security environment in a number of regions.

The complete ANDS was presented to the international community at a large conference in Paris in June 2008, where a number of the conceptual issues had been addressed. It still requires some efforts before it is a fully developed program and development document, however, since the budget side requires further work. What is important, though, is that the overall *approach* to planning and budgeting has now shifted towards results-based programming founded on costed activities.

3.3 Security and Development

The ANDS document notes that during the local consultation process, security was seen as the most pressing issue in half the 34 provinces (ANDS, p. 8). This internal concern is mirrored in the increasing attention Afghanistan was receiving in the international community during the last months of 2007 and continuing into 2008. A number of studies, reports and government papers were produced in a number of donor countries that looked at the security situation and development activities in Afghanistan (see Annex B, "Framework and General Documents"). The overall message was that the security situation had deteriorated and if strong measures were not taken they would continue to worsen. The causes that were given included the lack of a coherent and agreed-upon military strategy among the international partners, lack of coordination between security efforts and development activities, lack of positive engagement with Afghanistan's neighbors, and the slow pace in building the national defense and police as credible and non-corrupt security forces. The need for much stronger coordination of international support across the "3Ds" – defense, diplomacy and development – has among other things led to the creation of the enhanced UN coordinator's position recently filled.

But the reports also point to internal obstacles: the continued role of local leaders/warlords outside effective control of Kabul, the growing power of the drugs barons, increasing organized crime, the insurgency, and where the increasing co-mingling of these forces in various configurations is of particular concern. At the same time central authorities suffer from poor capacity, lower-level administrative levels are very weak, there is a perceived lack of political will to take difficult decisions, and the seemingly rising corruption at all levels and reaching the highest offices of government are undermining the ability and determination of government to address some of the strategic challenges facing the country.

By having security as the first of the three pillars, linked in with the governance and rights-based pillar and the socio-economic growth and development pillar, the ANDS provides a holistic approach to the country's development.

One question for the ARTF is exactly the extent to which it can at all finance activities that are relevant to the security pillar. This is a challenge for the Fund because the security situation, as seen above, is seen as critical in half the provinces, and the perceived continued deterioration in the security environment is also very high on donor agendas. A key reason is that without peace, stability and at least a process pointing towards national unity and reconciliation, other development efforts will continue to face high delivery costs, uneven geographic (and hence ethnic) equity, and presumably less effectiveness – goal attainment will be impaired. So if there are ARTF-funded activities that can contribute in a positive way to strengthening the security pillar, this should be seriously considered.

The other reason the security pillar is a challenge is that the ARTF is administered by the World Bank. It can therefore not fund activities related to the uniformed parts of the security sector. The ARTF would therefore have to identify relevant activities outside this constraint.

3.4 PRTs and Local Experiences

The main security⇔development link is the Provincial Reconstruction Teams (PRTs). There are currently PRTs in 26 provinces, headed by 14 different countries since the US alone heads about a dozen PRTs. The PRTs vary in their composition and mode of operation, largely depending on which country is heading the particular PRT, but also if the PRTs are in conflict-affected or relatively stable provinces.

Most PRTs have a military core and a civilian development contingent linked with it, and some funds to carry out small-scale local development activities. Aspects of PRTs that have been debated include the linkage between the military and civilian teams; the size of the funds available to the PRTs; the criteria for allocating PRT funds and the links between PRT projects and provincial and local decision makers and plans; and implementation.

There seems to be considerable agreement that where possible, PRT funded projects should not be managed by military personnel but by civilian or development staff, such as NGOs. One thing is that military staff usually do not have the skills required for running development activities, and military staff rotate very often so it causes problems for continuity and "institutional memory" regarding the negotiations and arguments for particular solutions chosen. But the most important argument may be that locals accepting support from foreign military may potentially become targets of the insurgents – there may be a high political risk to the population of direct engagement with foreign military.

In more conflict-affected areas, however, civil society actors or the local administration may not be able to work directly on the ground. This leaves PRTs with few options when they want to provide rehabilitation and development support in an area that has recently been stabilized. It is important that this occurs quickly so that the link between better security and improved life situation is clear to the population, but even more that the population gets the confidence that the authorities will continue to provide a better and more stable future.

Some PRTs have tried to address the problems by channeling some of the resources through local actors, whether governors, local strongmen, or traditional *shuras.* This was intended to ensure legitimacy of the interventions since they went through bodies that were believed to be credible and represented local authority, tradition and respect. The experience is mixed, though, since a number of these actors are corrupt, members of power networks that are not supportive of the Kabul government, or in other ways either taking advantage of the PRT funds, or not accepted as legitimate representatives by the local populations. The view by many is therefore that it is important for the PRTs to program and fund through channels that support the development of a legitimate and service-delivering public sector. Exactly how this can be done remains one of the PRTs' dilemmas, however, and since the security issue is so critical, it needs wider discussion and a consensus around workable solutions.

The size of the funds available to PRTs varies, largely depending on the country heading the PRT, since this country tends to be the main source of funding. Some PRTs made it clear that they would like more resources, while others do not see financing as a problem. The latter is often a result of those donors ensuring that their aid resources are available to that same province, particularly if it is a conflict-affected one.

This has created a situation where some conflict-affected provinces receive more aid per capita than the more stable ones. Some provincial leaders have therefore claimed that this creates perverse incentives – that they would be better off if insurgency increased in their provinces. One thing is that this is clearly an erroneous argument – insurgency always increases all costs so the result per dollar spent is less. More important is that the population clearly prizes security above investment projects – among other things because it allows them to allocate their own time and resources more rationally and in accordance with a longer time horizon – but primarily because individual security has a high value in itself. It does point to the need for addressing the security and political dimensions of development more aggressively, however, particularly since the ethnic dimension within the national political discourse appears to be growing again on the back of these kinds of perceived (and sometimes real) differences in resource allocations. This is a particular challenge to the ARTF because it is the most visible of the donor sources; because it represents the collective choice of so many of the Western donors; and because it is such a flexible funding instrument that the authorities actually can influence how resources are spent.

The ARTF may be able to contribute to the security-development link in several ways. One is to provide better information about the distributional dimensions of ARTF funding so that the perceived equity of financing – at least as far as ARTF is concerned – is addressed. Another is to assess if the ARTF would be a useful source of funding for the quick-results delivery that is desirable when new areas are secured, though it is not obvious that this is a good solution.

Some PRT countries believe that the ARTF should not get involved in immediate post-conflict stabilization activities because it is not sufficiently operational and flexible. The ARTF should instead continue focusing on the medium- to long-term development issues where the value-added of working through the public sector but based on clear rules of accountability and transparency are needed. Diverting scarce ARTF resources from this longer institutional and socio-economic development agenda was not seen as helpful.

Other PRT actors want the ARTF to get involved, however, to support the development of various kinds of political and delivery partnerships on the ground: local civil society and community actors such as the Community Development Committees (CDCs) and non-elected bodies like local *shuras* that can play mediating and consensus-building functions; public sector bodies like district administrations, the Independent Directorate for Local Governance (IDLG) and local offices of government ministries, UN agencies, local and international NGOs, and private contractors for delivering the services. The idea was that there needs to be a more coherent approach to the dilemmas faced by the PRTs in these circumstances, and that the PRTs and the authorities have so far not been able to come up with good solution sets. What is needed is not just specific interventions but also the framework rules for managing them, to ensure that the links to longer-term local development and strengthened public sector presence on the ground are addressed well. Over time this would form the basis for PRT exits. The ARTF with the World Bank at the helm was seen as a useful vehicle for this reflection and ensuring appropriate implementation[1].

Since most of the PRT lead countries are also ARTF contributors, their concerns could become part of the discussion around the ARTF funding policy. While the ARTF is not the appropriate forum for the larger security-development and funding discussions, it *is* the largest multi-donor grouping and as such one logical place to ensure that lessons learned in one field can inform the discussions and decisions in the other.

3.5 Findings and Conclusions

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

[1] There was not consensus on this view. Some PRT leads believe that they are beginning to find better ways of addressing the stabilization challenges based on local approaches. They felt that it may in fact not be useful or perhaps not even possible to find answers that are generally applicable to a security problem that is not simply a matter of insurgency but varies from one region to another, often linked with the drugs economy, local crime, and corruption in the public sector and the security forces.

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 is if the ARTF is a relevant forum for assessing alternative political and delivery partnerships that can link development financing with security needs.

4 The ARTF

The ARTF is meant to be a mechanism for coordinated funding for reconstruction activities in line with the agreed priorities of the GoA. The ARTF was designed to:

A. Promote transparency and accountability of reconstruction assistance;

B. Help reinforce the national budget as the vehicle for promoting alignment of the reconstruction program with national objectives;

C. Reduce the burden on limited government capacity for the first few years of re-engagement, while promoting capacity building over time;

D. Help fund the essential recurrent budgetary expenditures required for the government to function effectively; and

E. Provide a convenient mechanism for donors to fund priority investments.

The ARTF therefore has a mix of objectives: strengthen good governance (A and B), promote national ownership and capacity (B and C), and provide financing for government activities based on what are now known as the Paris Principles for Aid Effectiveness (B, D and E).

4.1 Funding Structure

Table 4.1 shows the financing mobilized through Solar Year (SY) 1386 (20 March 2008). 27 donors have contributed to the ARTF including UNDP which transferred about USD 2.4 million that were remaining in the earlier Afghan Interim Authority Fund (AIAF), which was closed down when the ARTF became operational.

As can be seen, there is a steady increase in aggregate contributions over time. The first full year was SY 1382, with USD 286 million. This grew by nearly USD 95 million the year after, to USD 454 million in SY 1385 and nearly USD 700 million in SY 1386 which just ended.

The contributions from the donor countries vary considerably. The five largest donors, which make up less than 20% of the donor group, have provided about 78% of the funding. In decreasing order of magnitude, the UK, Canada, the EU, the US and the Netherlands have together provided over USD 1.8 billion. If the other two donors that have provided over USD 100 million – Germany and Norway – are added, the sum is about USD 2,050 million – 85% of the total. These donors are all Western DAC members, and all of them have also committed substantial military resources through ISAF[2].

The other 20 donors can be divided into three groups. One group has provided fairly consistent support over the years, and is largely made up of other Western donors (Australia, Denmark, Finland, Ireland, Italy, Luxembourg, Sweden), though India is also included here. The second group is the Islamic countries, where three provided one-time early support (Bahrain, Iran, Turkey) while Kuwait and Saudi Arabia continued support for three years but where none of them have provided any financing during the last three years.

[2] These six countries (EU does not have military troops) are fielding 35,000 of the 47,000 ISAF troops – that is, about 75% of the 40-country ISAF contingent. In addition come military personnel under the US-led "Enduring Freedom" operations who are all from these countries.

Finally there is a heterogeneous group of countries, partly in the region (Japan, Korea, New Zealand) and partly European countries (Poland, Portugal, Spain, Switzerland) that have provided sporadic support, though Spain may now become a more permanent contributor.

Table 4.1: Contributions to the ARTF by donor by solar year (USD million)

	SY 1381	SY 1382	SY 1383	SY 1384	SY 1385	SY 1386	Total	% of Total
Australia	0.000	2.635	6.268	7.654	5.836	2.089	24.482	1.0%
Bahrain	0.000	0.504	0.000	0.000	0.000	0.000	0.504	0.0%
Canada	11.998	50.093	5.491	72.343	58.863	213.461	412.249	17.1%
Denmark	5.000	5.000	3.163	3.916	4.343	8.426	29.848	1.2%
EC/EU	15.871	52.720	47.595	58.771	52.720	73.615	301.292	12.5%
Finland	2.792	2.451	6.126	0.000	2.418	5.404	19.191	0.8%
Germany	10.068	11.443	15.941	1.230	20.474	55.992	115.148	4.8%
India	0.200	0.200	0.000	0.400	0.200	0.200	1.200	0.0%
Iran, Islamic Republic of	0.000	0.989	0.000	0.000	0.000	0.000	0.989	0.0%
Ireland	1.000	1.699	1.814	0.612	1.276	1.458	7.858	0.3%
Italy	17.000	0.000	6.539	0.000	9.223	8.804	41.565	1.7%
Japan	5.000	0.000	0.000	0.000	0.000	0.000	5.000	0.2%
Korea, Republic of	2.000	2.000	2.000	0.000	0.000	0.000	6.000	0.2%
Kuwait	5.000	5.000	5.000	0.000	0.000	0.000	15.000	0.6%
Luxembourg	1.000	0.000	0.000	0.605	1.563	1.070	4.238	0.2%
Netherlands	33.667	41.151	46.415	29.664	50.805	39.765	241.467	10.0%
New Zealand	0.000	0.000	0.000	0.000	0.628	0.000	0.628	0.0%
Norway	6.818	29.630	9.913	22.544	23.215	30.980	123.101	5.1%
Poland	0.000	0.000	0.000	0.000	0.290	0.270	0.560	0.0%
Portugal	0.000	0.457	0.725	0.000	0.000	0.000	1.182	0.0%
Saudi Arabia	10.000	5.000	5.000	0.000	5.000	0.000	25.000	1.0%
Spain	0.000	0.000	0.000	0.000	0.000	22.038	22.038	0.9%
Sweden	3.103	5.982	25.905	12.839	14.680	20.178	82.686	3.4%
Switzerland	0.673	0.000	0.000	0.000	0.000	0.000	0.673	0.0%
Turkey	0.500	0.000	0.000	0.000	0.000	0.000	0.500	0.0%
UNDP	0.000	2.411	0.000	0.000	0.000	0.000	2.411	0.1%
United Kingdom	15.079	47.096	103.062	131.473	128.487	151.052	576.249	24.5%
United States	38.000	20.000	89.591	62.000	73.900	60.504	343.995	13.9%
TOTAL	**184.768**	**286.461**	**380.548**	**404.050**	**453.921**	**695.307**	**2405.054**	**100.0%**

Source: ARTF Administrator's report, table 1, various issues

Some of the smaller ARTF donors are providing considerable support to Afghanistan but through other channels. This goes for Iran, Japan, and Saudi Arabia, for example, but also India is providing most of its aid outside the ARTF, as is the United States.

4.2 Sources and Uses of ARTF Financing

Table 4.2 below shows the main categories of income and expenditures through the ARTF. Sources of funds covers the contributions by the donors, the interest earned on the cash balances, minus the ARTF Administrator's fee of 1.5% (section A).

The funds are used to finance the recurrent budget of the Government (line C.1), for projects (line C.2), the pass-through to the Law and Order Trust Fund for Afghanistan (LOTFA) that UNDP administers (line C.3), and to pay the Monitoring Agent (line C.4) (see section 5.2.2).

Table 4.2: Sources and Uses of ARTF Funding, USD million, as at 19 February 2008

SOURCES OF FUNDS (A+B)	**SY 1381 Total**	**SY 1382 Total**	**SY 1383 Total**	**SY 1384 Total**	**SY 1385 Total**	**SY 1386 Total (1)**
A. Net Donors Contributions (A1-A2)	**184.240**	**284.382**	**378.954**	**404.094**	**459.996**	**714.750**
A.1. Donors Contributions	184.768	286.461	380.548	404.050	453.921	695.307
A.2. IDA fees minus Inv Income	0.527	2.079	1.594	-0.044	-6.076	-19.443
B. Cash Carried-Over (=D previous yr)		**119.524**	**155.966**	**238.250**	**302.969**	**294.074**
USES OF FUNDS (C+D)						
C. Disbursements	**64.717**	**247.940**	**296.670**	**339.375**	**468.892**	**468.892**
C.1 Recurrent window	59.212	214.144	235.155	253.248	300.213	290.550
C.1.1 Wages	40.953	145.769	179.321	174.213	216.199	203.000
C.1.2 O&M and other	18.259	68.374	55.834	79.035	84.015	87.552
C.2. Investment window	0.000	15.589	58.873	83.969	166.145	226.479
C.3. To LOTFA (UNDP Police) (2)	4.836	16.800	0.000	0.000	0.000	0.000
C.4. Fees to monitoring agent	0.668	1.407	2.641	2.158	2.534	4.798
D. Cash Balance (end-of-period)	**119.524**	**155.966**	**238.250**	**302.969**	**294.074**	**439.932**

(1): SY 1386 figures here are not fully compatible with the data in table 2 in the ARTF Administrator's report. The reason is that contribution data from table 4.1 above are used, and there are some discrepancies when exactly some contributions (UK and US) were paid in. The data from table 1 in the ARTF Administrator's report are used.
(2): The "pass-through" of funds to UNDP-administered LOTFA not used since SY 1382.

The contributions through the Recurrent Window are to finance the Government's operating budget, in particular the salaries of teachers and health personnel, but also general operations and maintenance (O&M). The wage bill support has grown from about USD 145 million in SY 1382, to an expected contribution of just above USD 200 million in SY 1386. The O&M funding has been somewhat more stable, hovering around USD 70-85 million a year.

The larger changes in disbursement patterns have been on the Investment Window side, where the funding is for projects. Disbursements naturally lag actual project commitments, so in SY 1382 just a little over USD 15 million was disbursed. This grew to nearly USD 60 million the following year, and to a recorded disbursement of USD 226 million in SY 1386, so for the first time project disbursements were approaching the level of support to the recurrent window, a level that is expected to grow in the years to come.

Table 4.3 below shows total disbursements and commitments as of end SY 1386 of over USD 750 million. The NSP is the single largest project, with total allocations of USD 340 million so far – that is, over 45% of all ARTF project financing. Microfinance is second with USD 120 million. The third is NRAP with USD 52.8 million. Together these three Community-based Development (CBD) programs have received just over two thirds of the funding.

The estimated additional project allocations for SY 1387 are about USD 433 million. Of this, USD 267 million are for the three large CBD programs. In addition the Horticulture and Livestock development program is coming on-line, for another USD 20 million, so CBD activities will again receive about two-thirds of the funding, in line with the trend so far.

Table 4.3: Project Disbursements, Commitments (USD million), end SY 1386

	Cumulative, end SY 1386	Estimate, SY 1387
Infrastructure Projects		
Telecom and Microwave Link	6.011	**0**
Kabul Roads and Drainage System	2.797	0
Mazar-e-Sharif and Kabul / Aybak power Project	57.000	0
Urban Water Supply and Sanitation	41.000	0
Rehabilitation of Naghlu Hydropower Plant	20.000	0
Kabul Power Supply	7.435	0
Kabul Roads	0	9.000
Power Substation and Distribution project	0	50.000
Kabul Urban Reconstruction Program	0	5.600
Sub-total, infrastructure projects	***134.243***	***64.600***
Community Based Development Projects		
National Solidarity Program I	168.692	0
National Solidarity Program II	171.500	178.000
Rural Water Supply and Sanitation	5.000	5.000
National Rural Access Program	52.820	25.000
Microfinance for Poverty Reduction	120.300	64.000
Horticulture and Livestock program	0	20.000
Sub-total, Community Based Development	***518.312***	***292.000***
Technical Assistance and Capacity Development Projects		
Strengthening Financial Capacity of Government	4.059	0
Management Capacity Program	10.000	0
Civil Service Capacity Building	13.000	0
Education - EQUIP	32.000	27.000
Technical Assistance, Feasibility Studies	18.500	0
Skills development project	0	9.000
Strengthening higher education program	0	10.000
Private sector development	0	3.000
National Justice program	0	27.000
Sub-total, TA and Capacity Development Projects	***77.559***	***76.000***
UNDP Police Projects – pass-through arrangement	21.636	0
Total	**751.750**	**432.600**

4.3 Preferencing and the ARTF

The World Bank has a policy of not permitting ear-marking of donor funds for particular activities in the trust funds that it administers. However, donors can express *preferences* for projects or programs for a portion of their overall contribution. In SY 1383, USD 79 million out of the USD 429 million pledged came with such preferences, representing just over 18% of the total. In SY 1386, however, donor preferences amounted to about USD 320 million out of the USD 700 million contributed – over 45% of this much higher total. While total funding to the ARTF is growing, preferenced funding is thus growing faster.

There are several reasons for this. One is that funding is committed this way by parliaments (the US Congress often earmarks its supplementary funding, for example). But agencies also want to report on good results. Locking their funding to programs that are seen to deliver, such as the NSP, is a way of providing visible linkages to good results. There may also be a combination of the two, where donor funding may be for particular objectives like poverty reduction, and the ARTF as a general pool is not exclusively aligned to this objective. Preferencing is a way of trying to address this.

The problem with the rapid rise in preferenced funding is that it may create rigidities in the overall funding allocations. The ARTF allows 50% of donor funds in any one SY to be preferenced, but once the Recurrent Window has sufficient funding, additional preferencing is possible. Since all ARTF-funded activities are within the ANDS, it should in principle not be a problem – the funding goes for nationally prioritized activities. But this may become a problem for the government if it starts "locking in" funds either at levels or for activities that are not fully in line with government priorities. Preferencing undermines a key principle of pooled funding, which is that the donors together agree on overarching objectives and then either agree on monitoring against these *general* objectives or engage in discussions on more *detailed* allocations. But the decisions should hold for the pool as a whole. Individual donors should not put in place own "conditionalities" on parts of their funding by preferencing.

One consequence of preferencing is that it undermines the joint solidarity of a trust fund – the "glue" of the arrangement. By demanding that own funds should go to a particular activity, the donor in question is "squeezing out" the other donors and their claims to sharing in the glory of that particular "winner". The donors that provide un-preferenced funds risk seeing that all the funds going to popular programs are preferenced – coming from other donors – so they will have a problem explaining to *their* constituents why their tax money is not financing these activities but only funding operating costs.

The ARTF thus needs to work harder with the donors to overcome the concerns of lack of accountability and results achievements, which lies at the heart of the need for preferencing, while accepting those cases where donor agencies are overruled by their decision makers back home when these earmark directly in their allocation decisions.

The move towards program budgeting that the ANDS is pointing towards may provide the key to how this issue can be addressed over time. This will be looked at in the last chapter.

4.4 Management and Administration of the ARTF

The World Bank is the Administrator of the ARTF and thus responsible for monitoring and reporting on ARTF performance. The Bank is in particular to ensure that funds are disbursed in accordance with the agreements with the donors and GoA and in line with defined and agreed-upon fiduciary standards and performance measures.

The ARTF is overseen by a Management Committee (MC) comprising representatives of the Asian Development Bank (ADB), the Islamic Development Bank (IDB), the United Nations Development Programme (UNDP) and the World Bank. The GoA, represented by its Ministry of Finance, is an observer. The MC is responsible for reviewing progress and for key management decisions, including for the approval of investment projects proposed for ARTF financing, and meets every month. The World Bank acts as Secretariat to the MC.

ARTF oversight and operations are coordinated by a World Bank country office team in Kabul under the authority of the Country Director for Afghanistan, resident in Washington, but who on a day-to-day basis primarily works with the Country Manager resident in Kabul. In addition, the Bank has contracted a Monitoring Agent (MA) to assist in ensuring proper fiduciary management related to the recurrent cost financing (see section 5.2.2).

There is a formal ARTF Steering Committee that consists of the MC members, all donors that provide at least USD 5 million during the fiscal year in question, plus an additional two seats for the smaller donors where these two seats are voted in on a rotational basis.

In reality the Steering Committee – or Donors' Meeting, which is how it is normally referred to – meets on a quarterly basis and has been open to all contributors. The meetings in the early years largely focused on administrative and performance matters, including discussing new project proposals that were being put forward by the Ministry of Finance (MoF). During 2007, the April meeting discussed the proposed Performance Assessment Matrix (PAM) for the ARTF, while the October meeting looked ahead at the future of the ARTF in light of the need for long-term funding for Afghanistan's development. This was when agreement was reached to extend the ARTF's lifetime to 2020. In 2008, the March meeting reviewed project results, GoA's revenue performance and the PAM results, while in June in Paris a main issue was the preliminary results of this external evaluation.

The MoF meets as an observer also at the Donors Meeting, and has been an active participant in the discussions. It has used the meetings to present policies and priorities for future ARTF funding.

The 2005 ARTF Review noted that donors wanted more policy discussions at the meetings, and that the role of the GoA should be enhanced. The latter has clearly happened, with the active engagement of the MoF in both Donor Meetings and MC meetings.

4.5 Information Sharing and Transparency

The 2005 Review considered the ARTF to be "best practice" when it came to information sharing and transparency in its operations. The one suggestion that was made was that the Management Committee minutes be made public, so that all donors and other interested stakeholders could follow the decision making in the fund regarding financial allocations.

The Bank continues to provide information on the ARTF through its country web-site. When the review team first re-visited the web-site in September 2007, it was clear that parts of the ARTF section of the web-site had not been updated for quite some time (one project referred to its expectations to be finalized in December 2006…). The financial information was largely up to date, while the MC minutes were lagging by some months.

This was commented on to the Bank, which has now upgraded the overall ARTF visibility on its Afghanistan home-page considerably. The information is now also updated and more easily accessible. The fact that sections of the web-site had been allowed to languish for so long must in part reflect – unfortunately – relatively low demand for information. Bank staff had not been made aware by the donors or others that information was not available or not updated. This may have been a cyclical issue – there are periods when actors are more in need of information, such as for end-of-year reporting. So the possible negative consequences of the web-site not being up-to-date for a period were clearly not serious.

The main issue that donors raised regarding transparency was how projects are developed and get into the pipeline for ARTF funding. The first question had to do with the internal priority setting on the GoA side, where it was not clear how the MoF decided which projects from the ANDS were selected for ARTF funding. The other had to do with the multiple roles that the World Bank plays in identifying and developing projects for approval.

On the GoA side, some donors expressed concern that they only meet the Ministry of Finance and thus do not have an opportunity to discuss policies and priorities with line ministries they believe need to be heard as well. One issue that was raised by several actors was the impression that some key ministries such as Agriculture (MinAg) either was not given the opportunity to propose projects or did not know how to. The end result was a "bias" in favor of the Ministry of Rural Rehabilitation and Development (MRRD), as the community-based projects NSP, NRAP and MISFA were all under MRRD. Only towards the end of 2007 was the Horticulture and Livestock Program from MinAg proposed and accepted. The concern is that the ARTF is creating distortions in the government's program by "under-funding" some sectors in favor of certain ministries (see 4.6.1 below).

At the same time, donors should recognize that their preferencing has in reality meant that they have largely decided where project funding goes. Once the Recurrent Window and preferenced projects are funded, there is little left in terms of discretionary project funding.

The questions about the World Bank concern the different roles it plays. It is a member of the MC and thus a decision maker. It is the Administrator, and thus both prepares the documents for and the reports from all ARTF activities. WB staff members are largely the ones preparing the performance reports presented to the MC and Donors Meetings and which the WB as an MC member is supposed to critically assess. Moreover, almost all the projects that come before the MC represent some form of additional funding to projects that already receive IDA-funding and thus were prepared by WB staff.

The two sets of issues become linked since the MoF and the WB are the two parties that are most intimately connected when it comes to ARTF matters.

This issue has only been raised with regards to the investment window and not the recurrent window. It furthermore has to do with the planning of proposed activities, and not to the monitoring and reporting on disbursements and activity implementation. The issue is thus one of ensuring greater transparency in the processing of project funding proposals, and thus speaks to objective A of the original objectives for the ARTF.

What seems to have been forgotten by some donors is that once the WB was selected as Administrator, it will by necessity have to use its own procedures and standards for overseeing the projects. This provides incentives to the GoA of putting forward projects that will be easily approved, and activities already vetted by IDA fill that bill. The real question to ARTF partners is thus rather if the priorities so far funded are in accordance with GoA priorities, which is what they have agreed to finance. If there are questions regarding which actors can be involved in preparing and implementing projects, this is more a discussion with the authorities. If GoA believes there are limitations due to ARTF regulations, these can be raised – but as a concern by the authorities to the ARTF, not by donors.

4.6 Aid Coordination and Funding Priorities

ARTF has throughout its existence promoted aid coordination through (i) ensuring that all ARTF financing is on-budget, (ii) that all funding partners are invited to participate in the ARTF meetings, (iii) by inviting government representatives to attend the meetings for open discussions, (iv) by providing full information of its activities and funding to the public through its open-access web-site. Despite this, both in 2005 and again now donors expressed some frustration at a lack of policy debates linked to the funding decisions.

However, aid coordination should in principle be handled by the national authorities, and the JCMB also has a formal coordination mandate with the GoA and UN as co-chairs. There is therefore broad agreement that the ARTF should not promote or develop any own *general* policy role or forum. But there is a concern that the ARTF project portfolio does not have a lot of consistency or logic to it, and there was a felt need for greater clarity around the criteria for future project funding.

The lack of internal coherence among the ARTF-funded projects is not necessarily a problem. What is important is that the Government has a meaningful set of projects in order to implement its development agenda. These projects will be funded by a number of different actors, so each donor such as the ARTF may be financing a fragmented project portfolio. Despite this observation the question remains if there are any grounds for prioritizing ARTF funds for some kinds of activities compared with others – that it makes sense for the ARFTF to develop a financing strategy that both provides criteria for prioritizing activities to fund over the short term, but also may say something about how the funding profile might change over time.

When looking at the projects so far funded by the ARTF, they have all been proposed by the GoA through the MoF and in line with GoA priorities. This is therefore in line with the Paris Agenda and the Afghanistan Compact, and should be acceptable.

However, there are characteristics of the ARTF as a multi-donor fund that provide some "comparative advantages". Since it congregates so many donors and manages a large amount of grants funding, it (i) should be able to reduce transaction costs through better harmonization and coordination of actors and activities, and (ii) because of its size should be able to generate synergies between different groups of activities that are funded.

Regarding transaction costs, it is clear that technical assistance (TA) and other capacity development (CD) activities are the ones that have the highest transaction costs per dollar disbursed. The reason is in part linked to the fact that donors tend to be more directly involved, for example by providing TA in kind, but also because CD is personnel and management intensive in general, both on the supply and demand/user side. This is also the form of development cooperation that is most fragmented among the actors, with different approaches and unit costs of the TA/CD being supported, so that the economies of harmonization and alignment are quite obvious and substantial.

Another field where transaction costs per dollar disbursed tend to be high is community-based development (CBD) activities. When activities are spread across a wide geographic area, as with NSP, conditions on the ground vary and thus adaptation costs to the specific environment may be high while the size of each activity itself may be small and require inputs tailored to that particular activity. The NSP has quite successfully addressed this through streamlining a national program, but the ARTF is also seen as the preferred funding source since it harmonizes donor inputs and thus reduces overall costs by imposing similar rules on all donors, but also shifts some of the burden onto the ARTF as a conduit of information back to the donors.

When it comes to generating synergies across ARTF funded activities, the most obvious opportunity is project funding for CD in MoF that can improve operating budget results.

The current situation is that the ARTF is allocating very limited amounts to CD activities and thus is not contributing to lower transaction costs in this field. On the CBD side, this is in fact the field receiving most ARTF funding, and the question is if this is done in a way that enhances overall efficiency and effectiveness – a question addressed in chapter 6.

Since there is little invested in CD, there is also virtually no synergies between the two ARTF windows today – an issue that will be returned to in chapter 8.

4.7 Findings and Conclusions

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.

5 Support to the Recurrent Budget

Since coming to power at the end of 2001, the national authorities have continuously improved the country's public finance management (PFM) system, covering planning and budgeting, accounting, audit and external accountability, including making key PFM data publicly available on the Internet. Systems and performance have improved rapidly, though some MoF departments are still dependent on considerable external Technical Assistance (TA). TA is currently provided under different contracts funded by four different donors.

The ARTF has contributed to the development of Afghanistan's public finances and its PFM system in several ways. It provides funds to the recurrent cost budget, and in general channels all ARTF resources through the budget, and thus uses, relies on and monitors the national PFM systems. It funds the Monitoring Agent (MA), which has contributed to the development of the accounts department in the MoF. The MA furthermore visits, trains and verifies the work done by the accounting sections in line ministries and the provincial offices of the MoF, the *mustoufiats.* The main role of the MA, however, is as an independent quality assuror regarding the recurrent cost expenditures of the government by verifying the documentation and procedures used for recording expenses. Finally, the World Bank as both the Administrator of the ARTF but also through its IDA funding, has been a key partner for the MoF regarding technical advice, analysis and funding for PFM TA.

5.1 Afghanistan's Economy and National Budget

The international community is concerned about the extent to which Afghanistan is able to fund its own development, and the efforts that go into achieving this: how the economy is growing, and the revenue raising and budget management that is being put in place.

5.1.1 Economic Performance

According to the GoA budget document for SY 1387, the country's economy grew at an average rate of nearly 10% during the last five years. This was largely due to the recovery of the agricultural sector and reconstruction activities in large part funded by the international community. This has meant that the official GDP per capita has more than doubled from an estimated USD 150 in SY 1381 to around USD 320 at the end of SY 1386.

The authorities expect this impressive macro-economic performance largely to continue, with projected real GDP growth of 7-9% in the coming five-year period (see table 5.1). This is based on further recovery and growth of the economy, the coming on-line of important large-scale projects such as the Aynak copper mine and possibly other mineral projects, and the general boost that the large infrastructure projects – in particular the national roads and power networks – should provide.

This economic growth scenario faces some serious challenges, however:

- ***Drugs:*** According to recent estimates drugs may add about one-third to the official GDP. The UN calculates that the area under poppy cultivation increased from 165,000 Ha in 2006 to 193,000 Ha in 2007, of which more than half was in Helmand province alone. The number of opium-free provinces in the center and north increased from six to 13 over that same 12-month period, however, so the picture is not uniformly bleak.

- ***Corruption:*** Afghanistan has fallen on Transparency International's Corruption Perceptions Index (CPI) from 117 out of 159 countries ranked in 2005 to 172 out of 180 in 2007 – that is, while in 2005 about 25% of the countries were ranked lower than Afghanistan, two years later only 5% were considered more corrupt. While the CPI suffers from methodological problems, especially when doing cross-country comparisons, this deterioration is faster than for other countries and is a serious signal that the authorities are not addressing corruption effectively.
- ***Conflict***: The security situation remains fluid, varying across regions and over time. While it is difficult to say something unequivocal about trends and dynamics, it is clear that the insurgency still holds sway in parts of the country and has the capacity to continue armed activities for the foreseeable future. The direct security costs and the indirect costs of doing business in security affected areas will therefore continue to absorb a disproportionate share of resources, slowing growth and delaying investments.
- ***Regional disparities***: Resource allocations have not been geographically equitable, so the benefits from growth are not felt equally throughout the country. Waldman (2008) estimates that total government and donor resources spent during SY 1386 varied from a low of about USD 50 per capita in provinces like Ghor, Wardak and Sari Pul, to USD 600 in Kabul. Of the 34 provinces, 13 received less than USD 100 per capita, ten were in the USD 100-150 range, eight received USD 150-250, Helmand about USD 400 and Nimroz USD 450.

  The fact that a disproportionate share of resources remains in the capital is a well-known phenomenon, and in particular in post-conflict settings. Part of this is to rebuild the seat of government and other national institutions based there, and some is simply due to expenditure registration: much of procurement for the provinces takes place in Kabul. But a ratio of more than 10:1 between the capital and other provinces is seen as grossly unfair and is already used by some regional politicians, and thus potentially destabilizing (see section 6.4). Security affected provinces like Helmand receive more funding because this is needed to deliver basic services. But if real resources per capita continue to be unevenly allocated this can both feed perceptions of inequity as well as have a real impact on the structure of the economy and thus heighten political tensions.

The main challenge is the intertwining of these issues. Warlords and other local leaders with links to government are seen as benefiting from the drugs trade, as is the insurgency and the large-scale corruption in the public sector. The result is a state that is seen as weak in some areas, unable and unwilling to address the key challenge of corruption. This undermines its credibility as the guarantor of the rule of law to private sector investors and the population at large, a key foundation for long-term sustainable growth and development.

5.1.2 Medium Term Fiscal Framework and National Revenues

During the last four fiscal years, government revenue has grown an average of 38% a year, from a little over USD 200 million in SY 1383 to USD 672 million in SY 1386. Revenue is expected to increase by a further 32% in SY 1387, to USD 888 million. While revenues in SY 1382 were equivalent to only 4% of GDP, by SY 1386 they had increased to 7%.

The authorities produced their first five-year MTFF in October 2005. An improved and updated MTFF was prepared in connection with the budget for SY 1387, so the budget is now fully linked with the MTFF. Table 5.1 provides some of the key parameters related to the operating budget. From this table it can be seen that domestic revenues are expected to grow to nearly USD 2 billion at the end of the five-year period, which means they will have grown by a factor of about 2.2 over the period, a truly impressive increase.

Because the economy itself is expected to grow so fast, in SY 1391 revenues will still only make up 11% of GDP, where the average for low-income countries is 12-13%. The authorities intend to continue its work to expand and deepen its revenue efforts, however.

Table 5.1: Medium Term Fiscal Framework, Operating Budget (USD million)

	SY 1387	SY 1388	SY 1389	SY 1390	SY 1391
Domestic Revenue	***887.5***	***1 121.6***	***1 366.9***	***1 649.0***	***1 971.4***
Tax revenues	691.8	881.6	1097.2	1347.6	1618.1
Non-tax Revenues	195.7	240.0	269.7	301.4	353.3
ARTF	276.4	270.0	270.0	270.0	270.0
LOTFA	153.0	175.0	175.0	175.0	175.0
Other grants	45.0	37.3	0	0	0
Total operating revenues	**1 361.9**	**1 603.9**	**1 811.9**	**2 094.0**	**2 416.4**
Operating expenditures, total	**1 312.6**	**1 533.8**	**1 629.8**	**1 763.7**	**1 908.3**
Compensation of employees	910.4	985.9	1 086.2	1 186.1	1 246.8
Goods and services	234.3	361.7	362.8	405.0	494.4
Other costs	162.6	186.2	180.8	172.7	167.0
Real GDP growth, %	9.3%	9.4%	8.4%	8.0%	7.2%
Domestic revenue/operating exp	67.9%	73.1%	83.9%	93.5%	103.3%
Domestic revenue as % of GDP	8.4%	9.1%	9.7%	10.3%	11.0%
Inflation, year on year,	10.2%	7.2%	6.0%	5.4%	5.0%

Source: 1387 National Budget, p. 37

As can be seen from the table, the authorities are assuming that the ARTF will contribute USD 270 million a year towards the operating revenue. The UNDP-administered Law and Order Trust Fund for Afghanistan (LOTFA), which largely funds police salaries, is to provide USD 175 million during the same period. While the ARTF recurrent window contribution is to make up 20% of the total operating revenues in SY 1387, this will have fallen to just over 11% at the end of the period.

5.1.3 The National Budget

The GoA distinguishes between its Core Budget, which consists of the funds that go through the Treasury account and over which it therefore has full responsibility, and the External Budget, where donors fund investment activities directly.

The Core Budget in turn is divided in two. The Operating Budget largely funds civil servant salaries and the operations and maintenance (O&M) of the public sector. The other part is the Development Budget that funds public investments.

In SY 1383, the total budget was about USD 5.6 billion. The core budget was USD 1 billion, though USD 0.7 billion was in fact under donor supervision, such as the ARTF funds where the Monitoring Agent has an oversight and reporting responsibility. Donors in fact funded about USD 5.3 billion of the total budget – just about 96% of total expenditures.

By SY 1387, the total budget is to increase to USD 7 billion, and to USD 9.1 billion at the end of the period. The external budget is expected to fall slightly during the period, from about USD 5 billion in SY 1387 to USD 4.7 billion four years later (these figures do not include all security sector expenditures that are funded off-budget, where the trend is not clear). The external budget will still make up over half the total budget, however, so donor funding outside the budget process and Treasury account will remain important.

Table 5.2: Budget Structure, MTFF figures SY 1387-SY 1391 (USD million)

	SY 1387	SY 1388	SY 1389	SY 1390	SY 1391
Total Budget	***7,903***	***7,639***	***8,167***	***8,665***	***9,102***
CORE: Operating Budget	1,307	1,516	1,633	1,672	1,745
CORE: Development Budget	1,568	1,684	2,208	2,282	2,643
External Budget	5,028	4,439	4,505	4,711	4,714
Share of Total Budget, in %					
CORE: Operating Budget	16.5%	19.8%	20.0%	19.3%	19.2%
CORE: Development Budget	19.8%	22.0%	24.8%	26.3%	29.0%
External Budget	63.6%	58.1%	55.2%	54.4%	51.8%
Sectoral Structure of Total Budget					
Security	40.7%	33.8%	32.8%	32.2%	31.9%
Infrastructure & Natural Resources	22.5%	26.5%	27.3%	28.4%	28.9%
Agriculture & Rural Development	10.5%	9.8%	9.1%	8.5%	8.1%
Education	9.4%	10.4%	10.4%	10.0%	10.0%
Good Governance & Rule of Law	4.7%	6.0%	6.5%	7.1%	7.2%
Health	4.1%	5.1%	5.6%	5.6%	5.7%
Economic Governance and PSD	3.0%	2.6%	2.6%	2.6%	2.6%
Social Protection	2.4%	3.3%	3.5%	3.6%	3.7%

Source: 1387 National Budget, p. 39-40

On the expenditure side, the picture has changed considerably over the last several years when it comes to the operating budget. One thing is that basic social services – primary health care and education in particular – have expanded rapidly to achieve national coverage as quickly as possible. The number of staff has therefore increased steadily over the period, and the number of teachers in particular is expected to continue to rise. Another factor that has pushed the recurrent expenditures up has been the priority reform and restructuring process (PRR), and this trend will continue with the pay and grade reform in particular for senior technical posts. Finally the need for increasing the size of the national army and police forces and put the full operating costs of the security forces onto the budget much earlier than was originally foreseen when the ARTF was put into place, has put additional pressures on the recurrent budget.

The shifts foreseen between the sectors point to a decreasing share to the security sectors. Infrastructure and natural resources investments will increase considerably while the social sectors will continue growing slightly as a share of the budget while agriculture and rural development at the time of the budget was expected to decrease among other things because the National Solidarity Program at that time was expected to come to an end. This has later been revised.

5.1.4 Sustainability of Public Finances

The rapid growth in public revenues is reducing the dependence on donor funding. GoA revenues will increase from covering about 4% of the total budget in SY 1383 to just over 11% in SY 1387, and intended to cover nearly 22% in SY 1391.

A more common measure used to track a country's exit from post-conflict status is how soon the country's own revenues can cover the government's operating budget. While the revenue has increased quickly, so have the operating costs, particularly because of the noted rise in teachers and the inclusion and growth of the security sector. Own revenues covered about 65% of the operating budget in SY 1384 through SY 1386. As shown in table 5.1, this share is now expected to rise substantially as of SY 1388, till own revenues will cover the operating budget fully in SY 1391.

Using the own-revenue-to-operating-budget measures, Chand and Coffman (2008) reviewed four post-conflict societies and estimated what donors should expect as reasonable time horizons for funding operating budgets. Looking at Liberia, Mozambique, Solomon Islands and Timor Leste, their estimates are that 15-23 years would normally be required. The "best case" was Mozambique with 15 years due to its annual 10% growth over the last decade.

By this measure Afghanistan is doing even better than Mozambique, as it looks like the country may reach this goal after only ten years! This is all the more remarkable because Afghanistan has had to contend with the very high costs of the security sector. In the case of Mozambique, after the peace agreement was signed in 1992, there has been no serious threat to internal stability and reconciliation, allowing the country to keep a small standing army and thus keep its defense costs down.

There is therefore nothing to indicate that ARTF funding of the recurrent budget has led the authorities to lessen their attention to revenue mobilization. The below-target revenue in SY 1386 is attributable to particular issues, including allegedly some lack of political will to get a couple of measures in place as soon as desirable. But this does not appear to be a result of any "moral hazard" dynamic, but rather to internal national political and administrative reasons, including perhaps that the country is facing elections.

This would be in line with the general conclusions from the analyses of why conditionalities tend not to be very successful. The political will of national leaders depends on what they consider to be in their own long-term interest, which is driven predominantly by factors internal to the country. The international community will generally have little political influence if their concerns run counter to those of the national leadership.

5.2 ARTF Recurrent Cost Financing

The ARTF was originally set up as a short-term mechanism to ensure rapid mobilization of financing for the immediate stabilization and reconstructing of Afghan society and its national authorities. Providing funding for the operating budget, and in particular ensuring that primary education and basic health services were made available to the population across the country, became a priority. The ARTF therefore set up the "two window" system of providing funding to the government's operating budget through the Recurrent Cost Window, and the Investment Window to fund particular projects.

5.2.1 Recurrent Cost Window

The Recurrent Cost Window was always seen as the more important one, in two ways. In the first place it channeled much the larger share of ARTF funds. Through SY 1386, USD 1,273 million was committed in support to the operating budget while USD 752 million funded projects through the Investment Window (see table 4.2).

The other was that funding for the operating budget was the priority in terms of ARTF cash management. The Administrator tried to ensure that the funds for the operating budget were made available in a timely manner so that the government would not face problems paying salaries on time. This has caused problems when donors have been slow to transfer their committed funds to the ARTF and the Administrator has been facing a cash flow shortfall. On occasion this led to funds that were paid in and preferenced for projects in fact had to be used for recurrent window obligations till the other donor contributions were received. This cash-flow management policy therefore had knock-on effects on smooth implementation of projects (discussed in the next chapter), but contributed to minimizing the operating budget constraints of government.

It was at the same time important that the national systems for funding the operations and investments of the state be put in place and made credible. The funding of civil servants' salaries during the first months after the Afghan Interim Authority came to power was to a large extent assured through the AIAF, where the direct administrative services of the UN system were being used. With the ARTF, funds instead began flowing through the budget and normal state channels.

The USD 214 million provided by the ARTF to the operating budget in SY 1382 was just over 47% of the USD 452 million operating budget. While the ARTF contribution rose steadily to its peak of USD 300 million in SY 1385, the percentage of the operating budget that this represented that year had fallen to 35%. During the subsequent fiscal year that just ended in March 2008, the ARTF contribution was under 29%, and it is expected to be just over 21% this year, though the funding is to remain around USD 270-276 million.

The justification for providing recurrent budget funding at the same level over the coming five-year period, as is foreseen in the MTFF, is therefore weak. The actual gap between expected revenues and the operating budget will be just equal to the ARTF transfer in SY 1389. By SY 1390, this gap will have been reduced to just around USD 115 million – less than half of what the ARTF will be transferring – while in the last year there should be no need for ARTF funds whatsoever for the operating budget.

On the one hand this issue is somewhat academic. Once funds are transferred to the Treasury account, they are fully fungible within the Core Budget. They are simply available for financing the government's activities, whether labeled operating or investment.

This becomes all the more the case as the government moves from the division between operating budget and development budget and towards a program-based budget under the ANDS. Then the government will have to provide clear priorities in terms of which programs are to receive how much financing in each sector. As the government costing of the various sector programs improves, funding can therefore be shifted from general operating costs to priority programs that are agreed by the parties, to ensure funding in a situation of what will remain limited resources against massive un-met needs.

The other aspect of the continued recurrent window funding in the face of the declining operating budget gap, however, is that the ARTF is then in fact funding investment activities but without any discussion and performance agreements with government. With the operating budget fully funded by own revenues, the government is in fact using ARTF recurrent window funding for the development budget. *Technically* the reimbursement mechanism can still be used, so that it is government surplus on the operating budget that is increasingly transferred to the development budget. But the main argument for the ARTF recurrent cost window is that it is to finance the own-revenue shortfall in the operating budget, to ensure that critical services such as education and health are delivered. Once this funding gap has been addressed, there is no reason why the international community should continue funding the Recurrent Window.

5.2.2 Monitoring Agent and Fiduciary Control

The government receives ARTF funds under the recurrent window as reimbursements of eligible expenditures already incurred. In order to verify that the expenditures presented are indeed eligible for this refunding, the World Bank has contracted PWC Netherlands as an external Monitoring Agent (MA) that monitors, supports and reports on these claims against eligibility criteria and fiduciary standards.

Monitoring Agent Tasks

The MA provides monthly reports on the review and verification of eligible expenditures and the performance of related accounting, payroll, procurement and payment systems. The monthly reports are issues-focused, detailing the overall operations and provide aggregated and detailed financial information including expenditures reimbursed, the status of withdrawal applications in process, status of special accounts, eligible and ineligible expenditures to support month to month analysis.

More detailed quarterly reports provide analysis of trends in eligibility, expenditure execution problems and recommend corrective measures. The MA reports on progress made over the quarter in meeting the fiduciary benchmarks agreed between the MoF and ARTF. The MA meets regularly with the Bank and GoA to discuss issues and findings.

The MA focused to begin with on central documentation and accounts procedures. Because both procedures were weak and staff had poor training, the MA wound up writing a manual regarding the proper procedures for processing expenditure claims, and then trained staff in both the MoF and in the line ministries in the manual. This was later extended also to provincial *mustoufiat* staff.

MA staff carry out site visits to the line ministries, and also to those provinces where it is possible for them to visit. In those provinces they cannot go for security reasons, *mustoufiat* staff instead bring the documents to Kabul – often at great personal risk to themselves – for the MA to verify.

Payroll Verification

The MA divides operating payments into four categories, and uses slightly different systems to verify the payments for each one of them: (i) payroll based salary expenditures, (ii) non-payroll based salary expenditures, (iii) operating and maintenance (O&M) expenditure excluding pensions, and (iv) pensions. The largest category by far is payroll based salary expenditures, constituting about 55%, while O&M is about 28%, non-payroll based salary is 11% and pensions make up the remaining 6%. The verification of the payroll is therefore critical in expenditure oversight.

The MA's main task is to check that funds disbursed as salary payments in fact are used for this, and reach the right persons. To do this, the MA carries out a series of steps, including checking that all expenditures are within budget by Ministry by major budget code; that the headcount of the payroll, recorded in the government's headcount database, is within the official approved manning tables ("tashkeel"); that the persons whose names are on the staffing tables have contracts, have signed attendance records, that those who signed attendance records are physically present, and signed for their salary. This verification process has focused on the education sector, since the nearly 137,000 teachers make up by far the largest share of the civil service.

The risk of payroll abuse is being reduced with the improvements in the banking system and the implementation by the Government of the Verified Payroll Program (VPP) as more and more civil servants receive their salary payments directly into their personal bank accounts, so that the possibility of superiors "skimming" salary payments is reduced (though obviously not eliminated). So far, only 9,000 civil servants are covered, as this is the final step in the VPP. But this process is to accelerate in the years to come. This VPP involves issuing teachers and other civil servants with identity cards that cannot be falsified.

The MA also manages the civil service headcount database at the MoF. It supervises data entry, performs consistency checks with other sources of information, and ensures the production of the requested reports. This database is a stand-alone application that is not directly linked with the MoF's Afghan Financial Management Information System (AFMIS). The MA therefore carries out a reconciliation between the two databases as a further payroll check. Of the differences found during the last two years, in SY 1385 there was a difference between the two amounting to a little under USD 12 million, which in SY 1386 had fallen to under USD 8 million of a total payroll expenditure of USD 220 million. Of this, 85% of the difference in SY 1385 and 60% of the difference in SY 1386 could be attributed to payrolls that had not been entered in the headcount database. The unexplained differences were therefore less than USD 2 million in SY 1385 and USD 3 million in SY 1386.

Based on the staff verification work undertaken, MA believes that the problem of "ghost workers" is limited. The MA found that payroll eligibility increased from 84.9% in SY 1384 to 92.4% in SY 1386. Most of the ineligible payroll had to do with missing documentation on staff in embassies abroad and excess of staffing levels over the *tashkeels*.

O&M Funding

About two-thirds of all ineligible expenditures concerned O&M payments. The main reason was non-compliance with the government's own procurement regulations. This was in large part because a new procurement law was passed at the end of 2006 but many line ministry staff were not provided sufficient training to comply fully with all the new regulations.

The MA makes a distinction between rectifiable and non-rectifiable errors. One common mistake is that the result of a tender is not published within 30 days, as the new law stipulates. By the time the MA finds the error, which invariably is three to four months after the expenditure is incurred, there is nothing ministry staff can do to correct it. That procurement thus remains permanently ineligible even if all other steps have been properly followed. In general, the mis-procurement problems are related to a few identifiable tenders, so that the problems are easily captured and analyzed.

Monitoring Agent Value-added

The MA reports are transparent and easy to read. The basic structure of both monthly and quarterly reports has remained largely unchanged over the years, so it is easy to compare the data over time and thus track the performance indicators they use.

Based on the monitoring data and the resultant analyses and findings, the MA has put in place a risk-based approach to expenditure monitoring where MA staff focus their activities on those areas where problems are most likely seen to occur.

The MA verifies all expenditures over the operating budget that are potentially eligible for reimbursement. Based on this, they advise the ARTF Administrator on the release of funds to the Treasury to refund the eligible expenditures. Since the ARTF resources represent a constantly decreasing share of the total operating budget, this means that the date on which ARTF resources can be released comes ever closer to the beginning of the financial year, so the incentives for complying with MA oversight conclusions thus decreases over time.

The MA has helped put in place systems and instruments to strengthen Afghanistan's PFM. The VPP represents an important service that is still being developed.

At the same time, the actual verification that the MA is carrying out remains document based. It does not contribute to more careful performance audits, much less forensic audits to uncover more sophisticated forms of fraud or problems with complicated procurement. In an environment that is known to be highly corrupt and where systematic corruption is claimed to be on the increase, this represents a challenge.

The MoF has recently established its Internal Audit department with more than 100 staff. Most are university graduates recruited specifically for these financial control functions. The MoF has furthermore been given a focal point role vis-à-vis the line ministries' control units, a function that historically had been a responsibility of the Control and Audit Office (CAO) of the Auditor-General. As the Internal Audit department becomes fully operational, it should logically take on much of the oversight work that the MA today does.

The need for external document verification and training in basic procedures is being reduced. At the same time there is a need for external control and audit verification. The terms of reference for an ARTF funded Monitoring Agent should therefore be updated. This is all the more relevant in light of the possible shift of funding from operating budget support to program funding over the next several years. It would be logical to link this with the quality assurance work that the new Audit department is to undertake, to find ways in which a MA can help improve the performance of the MoF Internal Audit unit.

5.2.3 Addressing Corruption

The ANDS Draft Anti Corruption Strategy (January 2008) notes that "Corruption is a significant and growing problem in Afghanistan…Corruption undermines the authority and accountability of government, lessening public trust and reducing the legitimacy of state institutions and eroding the security and other human rights of citizens… It diminishes the amount of state income from customs and tax revenues and results in less funding available

… for sustained economic growth, poverty reduction and social development. Most crucially corruption constrains private sector investment, increasing transaction costs and eroding business confidence…"

In a discussion note for the donors' meeting in Paris in June 2008, the background note states that "By all accounts ***corruption has become widespread, even pervasive in Afghanistan".*** It goes on to note ***"Despite strong statements against corruption by government leaders, little progress has been achieved"*** (emphases in the note). It does observe, however, that "considerable progress has been made on the prevention side through public financial management (PFM) reforms and improvements….This progress in preventing corruption in the government budget system of course does not apply to the two thirds of development assistance that flows outside the budget, where corruption prevention depends on the level of donor oversight, particularly at the lower levels of the subcontractor chain".

As part of the joint GoA-donor commitment to combat corruption, the parties agreed to carry out a series of Vulnerability to Corruption Assessments (VCA). The first ones that have been finalized are on the Budget and the Revenue Departments of MoF, the energy sector, the roads sector, and the appointment process for senior civil servants. Others are to follow.

While the VCAs suggest practical steps for improving the situation in important parts of the public sector, they do not address the key concerns expressed in the June note: the need for strong political leadership to provide clear signals in support of sustained efforts against corruption; clarification of institutional responsibilities among key anti-corruption actors such as the CAO, the Attorney-General's office, and the MoF's Internal Audit department; and getting in place a credible enforcement system including a judicial sector that is able and willing to move also against the powerful who are engaged in corrupt practices.

While the ARTF has so far contributed to improving the PFM, the possible transformation from funding recurrent expenditures and some projects to more sustained funding of broader programs means that the corruption issue becomes of more concern. At the same time the ARTF is the largest source of direct funding for the budget, and thus the key instrument the international community has for raising such systemic issues related to public finance performance. This situation should be used to ensure greater accountability and action regarding the fight against corruption.

5.3 Results Assessment of Recurrent Cost Funding

In order to track results from ARTF funding, the donors and government agreed to a Performance Assessment Matrix (PAM) for the ARTF. It contains five general areas of concern: public finance management; aid effectiveness and mutual accountability; education; health; and public administration reform. The selection of the areas for performance monitoring are based on the nature of the ARTF program itself, with a focus on overarching administrative systems including aid coordination, and then including results in the two sectors that are to benefit the most from the recurrent cost funding, namely health and education. The performance of the projects under the investment window is reported on directly by the projects and therefore not included in the PAM (see the next two chapters).

The matrix is quite comprehensive. Under the first area addressing PFM, there are four sub-areas, covering revenue mobilization/fiscal sustainability, budget execution and in particular getting the budget aligned with service delivery priorities, PFM and combating corruption, and linking budget and strategy. There are a total of 20 indicators, with baseline values for SY 1384 and annual target values through SY 1388.

The aid effectiveness area is divided into two main sections: on the government's PFM system, and predictability of ARTF funding, thus addressing the donors' responsibilities as part of mutual accountability. A total of seven indicators track progress, while there are five indicators in the education sector and nine in the health sector. The ten indicators tracking public administration reform addresses the structure of government, human resources management – civil service performance management and merit-based appointments – and capacity development.

The first PAM results matrix was presented to the donors in October 2007, and an update was provided for the meeting in March 2008. As the program matures, it is believed that the value of the matrix will increase since it will be possible to see progress over time, but also fine-tune and improve particular indicators if this is felt to be needed. The PAM is thus a flexible tracking instrument that can be adjusted by changing the sub-areas and the indicators that are used to measure progress as the program itself evolves, or even change/ include new sectors, if the parties agree.

In addition to the PAM, which largely provides a set of snapshots along some specific indicators, Afghanistan has also carried out two Public Expenditure and Financial Accountability (PEFA) assessments. This provides a more broad-based assessment of the larger PFM system. The first one was done mid-2005 while the second one was recently published based on the field work done at the end of 2007.

The PEFA contains a standard set of 28 indicators tracking the government's PFM across six areas: (i) credibility of the budget, (ii) comprehensiveness and transparency of the budget, (iii) the link between policy and resource allocations, (iv) predictability and control in budget execution/disbursements, (v) accountability, recording and reporting, and (vi) external scrutiny and audit. There are also three indicators for tracking donor practices.

The overall findings were very positive, as 18 of the 28 indicators had improved, eight remained the same, while the last two had become worse. It is noted in the report, however, that the 2005 ratings on these last two were based on limited information – that is, these ratings may have been too high and the recorded deterioration may therefore not be correct.

At the same time, donor performance deteriorated along two of the three indicators and was stable on the third. Donors have good practices as far as their budget support is concerned where support is well communicated and disbursements are in line with forecasts. This refers largely to the ARTF, which confirms ARTF performance along these dimensions. But donors are still channeling most of their resources on the outside of the budget and provide limited and unreliable data on this.

It is interesting to note that Afghanistan scores very well compared not only with low-income countries but also middle-income countries. It scores well above the average for both these groups concerning (vi) external scrutiny and audit, and higher than both groups on (iv) predictability and control in budget execution/disbursements, and (v) accountability, recording and reporting, and just above on (iii) the link between policy and resource allocations, and (vii) donor practices. It was well below the average on (i) credibility of the budget. This is in part due to the major gaps that remain between budgeted and actual disbursements on the government's investment budget. As the costing of the ANDS improves and becomes more realistic, PEFA scores will undoubtedly improve.

These ratings must be seen in the context of where Afghanistan was only five years ago, where it had to rebuild its systems and capacities almost from scratch. The country's achievements are thus quite impressive, notwithstanding the challenges that remain.

5.3.1 Efficiency and Effectiveness

The Bank, as the Administrator of the ARTF, receives an administration fee of 1.5% of the paid-in contributions. This has been sufficient to maintain an ARTF team in Kabul that has been able to both track performance, ensure the reporting to the donors, and the dialogue with the authorities. One reason the Bank has been able to keep its overhead costs so low is that most of the projects also have IDA funding and thus can share the supervision costs and other quality assurance tasks with the Bank staff's normal TTL responsibilities.

Both the Bank's ARTF team and the MA have provided value-added not only to the ARTF funded activities, but are credited with "spill-over" quality improvements in the overall PFM. They have provided quality assurance and standards-setting services that have led to improved reporting back to the donors as well as better performance by public officials.

Waldman (2008) notes that of the USD 25 billion that in principle have been committed by the donors for reconstruction and development, less than half have actually been committed. When it comes to the ARTF, commitments and disbursements are now moving very well, where promised funds are delivered and results are being produced. The ARTF is thus a "best practice" case in this field. Waldman notes that over half the aid is tied, while all ARTF funds of course are un-tied and on-budget. He goes on to note that "in some large contracts there are up to five layers of international or national sub-contractors, each of which usually takes between 10-20% profit on any given contract but in some cases as much as 50% .... Procurement and tendering processes are rarely transparent" (op.cit., p. 18). Compared with these and other cases pointed to by government officials, the ARTF funding clearly is both an efficient and effective funding mechanism.

The PAM and the PEFA reviews complement each other since the PAM is a tool designed around the ARTF specifically, while the PEFA takes a broader PFM view and builds on international "best practice" standards for assessing country performance. Together these instruments allow the parties to verify efficiency of the recurrent budget support, and the effectiveness in terms of achievements. Based on the results from the PAF and PEFA, complemented by studies like Waldman, Integrity Watch Afghanistan (four studies are contained on the bibliography here) and others, the ARTF Recurrent Window must be rated as highly satisfactory.

5.3.2 Relevance and Impact

The relevance of the recurrent budget support is fast being reduced, as discussed above: the government's own revenue will shortly be able to cover the operating expenditures, and the need for continued large-scale un-earmarked funding for salaries and basic operations and maintenance should therefore diminish in the years to come.

The PAM helps the parties to focus on achievements along the dimensions that have been defined as the most important. This tool allows for tailored performance monitoring, but also serves as the foundation for policy dialogue. What are the key concerns the donors have in an area such as fiscal sustainability, for example, and how should this be defined, tracked, and what are the target values the parties have agreed to for each of the coming fiscal years? This is a powerful tool that strengthens results focus and policy contents, and because it permits dialogue around priorities, it can give performance ratings even up to Impact level.

The comments provided in the 2005 ARTF review seem largely valid today as well:

> The Impact is largely seen in two areas. The first is in the field of PFM itself. This is partly due to the specific work that the MA is carrying out, pushing for enhanced performance and demanding compliance with fiduciary standards. The other is that since the ARTF is channeling resources on-budget, an increasing share of total funding is being handled by the national PFM systems, improving transparency but also overall accountability for resource usage….
>
> The ARTF has shown the way and acted as a pilot and assumed the learning costs and risks. The Impact here may therefore be further untying of donor funding and a more rapid transition to general budget support.
>
> The other area of Impact is through better service delivery due to resource availability. While paying teachers' and nurses' salaries contributes to direct output delivery, the longer-term Impact will be seen in the institutionalization of better social services, and this in turn should over time be captured by enhanced literacy and health status indicators. Overall, the Recurrent Window is funding the basic public services that any society depends on for its longer-term growth and development.
>
> At a more subtle but perhaps more important level, the continued ARTF funding is ensuring that the legitimacy and credibility of the state is strengthened, providing a more solid basis for political stability, national security, and a more open and enabling environment for business and civic activities. While these are more fragile gains, and the longer-term impact can conceivably be reversed, the systems for delivering and the levels of the funding are contributing to making the longer-term impact possible.

5.3.3 Institutional Arrangements and Flexibility

The institutional arrangements for the ARTF are somewhat unusual for a post-conflict trust fund. Most other funds have a fairly broad-based policy making body made up of the donors to the fund, government counterparts, and in the case of the MDF in Indonesia it also includes civil society participants (the real participation and voice of these representatives is a different matter – but they are given a platform that they can use, and which on occasion they have). Then there is a smaller decision making body, but where the major donors still have an important say.

The ARTF has an MC that consists of four multilateral bodies that between them make no financial contributions to the ARTF while the donors that committed USD 700 million last year have no formal say. This is hardly a system that is tenable over the long-term now that it has been decided that the ARTF is no longer a short-term gap-filling body but a medium- to long-term fund that will require large-scale annual financial contributions.

The Donors Committee is largely an informational and discussion forum based on documentation and agenda prepared by the Administrator. The meetings on the PAM, the discussions with the MOF on project proposals are important, but the DC comes across more as a consultative rather than a policy setting body – though it should be noted that there is also some frustration at the level at which some embassies are represented at DC meetings and which make more principled policy discussions difficult.

This is in part a function of the donors being surprisingly anonymous in their participation in the ARTF. One reason is the limited staffing most donors have in Kabul, and which makes it difficult for them to participate as actively as some of them would like to. But there also seems to be an attitude of leaving this to the Bank since that is what they are paying the overhead fee for – the Bank should shoulder the responsibilities and use the time necessary for running the ARTF and ensuring that targets are reached. This seems to represent something of a disconnect between the stated political importance several donors have voiced regarding the ARTF, and the level of own management and political resources they are in fact willing to commit to the fund. Over time, this divergence between formal political and actual commitments may become a problem for the ARTF, since it may weaken the knowledge, understanding, agreement and commitment to what the ARTF is doing, and thus the felt ownership and co-responsibility of the fund and its performance.

A stronger role for the donors may reduce some of the flexibility in the ARTF arrangements, since new voices would be added to the policy discussions and decision making. But it will also strengthen transparency and accountability and thus address one of the key concerns of donors, which is understanding the more informal workings of the ARTF resource flow decisions. Getting a more critical process for assessing funding proposals, for example, is not necessarily a bad thing, and may improve the understanding on the side of the donors concerning why certain decisions are being taken.

5.4 Findings and Conclusions

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.

Revenue has been growing even faster than the economy, and the MTFF 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.

6 Investment Window: Community Based Development

Two-thirds of the Investment Window funds have been allocated to the three activities that can be labeled as "community-based development" (CBD): NSP, NRAP and MISFA. While all three are managed under the MRRD – NRAP as a joint program with the Ministry of Public Works (MPW) – they have somewhat different logic and link to local communities. What makes it relevant to consider all of them CBD activities is that they primarily benefit rural communities (NSP and NRAP in particular) or in general the less well-off segments of society (MISFA). Of equal importance is that they have decision making structures that give the intended beneficiaries an important voice in how resources are to be allocated.

6.1 National Solidarity Program

The National Solidarity Program (NSP) was established in 2002 with the dual objective of building community level governance, and assisting in reconstruction and development of rural communities (see Annex D for a more complete overview of the NSP).

On the governance side, the NSP provides external support and facilitation to introduce locally and democratically elected Community Development Committees (CDCs). The CDCs are to manage a participatory process for developing a Community Development Plan (CDP), from which priority activities are selected for funding through block grants provided by the NSP. Particular attention is to be paid to women and their concerns, where different approaches have been used to account for important regional differences with respect to gender attitudes and practices.

The development activities and their implementation modalities are decided by the communities. The external support is provided by 29 different Facilitating Partners (FPs) that are contracted by the MRRD.

The NSP is organized as a separate body answering to the MRRD. It has about 500 staff who are in charge of financial and performance management, quality assurance, etc. The 28 FPs have almost 7,000 staff, most of these working in the field with the CDCs, providing guidance and training for both the governance and the development activities. The time required from the initial contact with a community till a sub-project has been finished and the completion report prepared has generally been about three years, though the NSP wants to reduce this to two years.

The NSP program was originally scheduled to be finished by SY 1388 (March 2010), at which time it would have spent nearly USD 1 billion. The objective was to reach 90% of the estimated 24,000 rural communities in the country. More recent studies indicate that the actual number of rural communities may be significantly higher than originally estimated, which will have implications for the time line and budgets foreseen[3].

[3] It is therefore not clear what share of the population or of other indicators such as rural production is in fact covered by the current NSP program. It may be reasonable to assume that it is the more accessible and hence presumably the larger and more fertile communities that have been included first, though the picture may be different in the security affected areas. Annex E discusses the somewhat different concepts and figures that have

6.1.1 Main Project Results

By March 2008 over 22,300 communities had contracts with FPs. 20,500 communities have elected CDCs, and there are nearly 20,200 community plans developed. This means the program has already achieved the original numerical targets set for the program.

Over 37,500 sub-project proposals have been received, over 96% of these have been approved and half are already completed. Total block grant disbursements to community bank accounts as of mid-April 2008 are over USD 455 million.

The break-down of sub-projects shows that Water and Sanitation is the largest category with 24.3%, followed by Transport at 22.3%, Irrigation 16%, Power 15.2%, Education 13.4% and Livelihoods only 6.6%. The sub-projects have also financed 17 million labor days, which has created important additional income for these rural communities.

6.1.2 Efficiency and Effectiveness

The NSP is growing according to the original expansion and growth milestones. There are challenges in relation to the actual disbursements and facilitation of the block grants, but almost all the CDCs established have had sub-projects approved.

The NSP experienced major disbursement problems in the early phase. In SY 1384, about half the communities in five provinces researched experienced delays of about one year in the second tranche payment, which was 40% of the grant (Nixon 2007). This led to some half-finished projects degrading, communities became frustrated, and distrust of external actors – whether the MRRD, NSP or FPs – increased. With the delayed payments, some of the larger NGOs funded their operating costs from own resources till the situation was resolved, but several of the smaller FPs had to suspend operations.

There were several causes for the financial problems. The donors were slow in transferring the funds to the ARTF, and MoF procedures slowed the disbursements to the MRRD. The most important reason, however, was that the ARTF gave priority to funding the recurrent costs of the government, so while there were donor funds earmarked for the NSP, the ARTF had to use these to cover a cash flow gap to the budget. At the same time, first tranche releases for new block grants had to be disbursed as projects were approved from new entrants to the NSP program.

Since then cash flow management and procedures have been improved. But the experience has created a legacy of some distrust and claims of systemic inefficiencies that still haunt the program. One particular change has been that the NSP operations manual was revised in December 2007 so that CDCs will now receive 90% of their block grant up front.

The main efficiency issue now is the administration and facilitation costs. The average costs of the FPs is about 25% of the NSP budget, and NSP administration takes another 7-8%. One issue that has been raised is if the FP contracts can provide stronger incentives for making the CDC block grant cycle shorter, accelerating delivery.

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been used in this connection. NSP has recently revised its own figure to 32,800, which may be the new target value it will work against.

While the efficiency concern is a legitimate one, the question is "efficiency for what"? The problem is that the two objectives for the CDCs may require quite different timelines. If the CDC's main objective is to be a local contracting party for infrastructure investments, the timeline can probably be shortened. If instead the concern is the strengthening of local governance, introducing and maintaining democratically elected councils that will also promote gender equity, this is a more time demanding process. Bringing clarity to the objectives and thus core responsibilities of the CDCs is critical both for assessing efficiency, but even more for assessing NSP effectiveness: establishing and maintaining capacity to deliver infrastructure projects versus enhanced local governance and empowerment.

A particular concern for the NSP as a program that is to reach all rural communities is the security problem in some provinces. A strategy for working in high-risk areas was presented in January 2008 and has been agreed with the World Bank. Rather than having FP staff go directly into high-risk areas, they will work through local NGOs as a subcontractor, or train experienced CDC members in close-by districts as "Community Facilitators". These Community Facilitators will then hold the workshops and help the communities in high-risk areas elect their Committees and develop their CDPs. The elected CDC officials will then come to safer areas, such as the provincial capital, for training by the FP on the "NSP Package": CDC by-laws, NSP accounting, procurement, project management etc.

There menu for sub-projects in high risk areas is the same as elsewhere but the budget is limited to USD 20,000 to mitigate for a lack of constant technical support and reduce financial risks. Priority is given to sub-projects that do not require site visits to prepare the technical design. If, however, a design is required, a village technician prepares it and then shares it with the FP engineer. – All of these measures mean that the costs of delivering the NSP program will be somewhat higher, so this also needs to be borne in mind when assessing NSP efficiency.

The NSP is evolving according to its plans, but the finding that the number of rural communities may be considerably higher than stated in the planning documents, and that there still is uncertainty regarding the actual size of the rural population because there is no recent population census, makes the concern of covering the entire rural population by the NSP a more distant goal. This challenges the levels of funding needed to ensure the national coverage and equity, one of the main objectives when the program was initiated.

When it comes to tracking NSP performance according to efficiency and effectiveness criteria, a key weakness has been that there has not been a solid baseline in place, and also not an agreed-upon set of indicators to monitor, particularly when it comes to the governance dimension. An important evaluation including the baseline is now being carried out with the support from Harvard University. It includes developing indicators for all aspects of CDC activities. While a first review of the NSP was very favorable regarding NSP results (York University 2006), it lacked the more rigorous quantitative conclusions that a large-scale program like NSP should be capable of yielding. The baseline study should therefore assist decision makers regarding what is an extremely important but also expensive program, both in looking at cost-effectiveness issues, but also documenting tangible short- and medium-term effects of the investments and other CDC activities.

There is less known about efficiency and effectiveness of the resources once they reach the communities. The USD 200 per household grant level is very high compared with similar programs in other countries. There are a number of issues that need to be looked into over time (which the baseline study to some extent undoubtedly will address) regarding ownership of the assets, the equity in the distribution of the benefits from the projects, sustainability in the maintenance and operations of the investments. There is also the obvious issues of corruption, where the NSP grants represent considerable resources in the local context. The KDP program in Indonesia, which the NSP has borrowed a number of design elements from, has designed an explicit anti-corruption strategy based on the principle that villagers themselves have decision making power over planning, procurement and management of funds. While the NSP uses these same management principles, the anti-corruption element as such is much more anonymous in the NSP, something that may be a serious weakness. Another thing is that a recent evaluation of anti-corruption work in the KDP has noted that external audits were in fact more successful in uncovering corruption in road projects than the local community monitoring, for a number of reasons that may be as valid in Afghanistan as in Indonesia (see Woodhouse 2005, J-LAB 2008).

6.1.3 Relevance and Impact

NSP is the key vehicle for delivering on key objectives in Sector Six of the ANDS, *Agriculture and Rural Development.* Program 2 is "Rural Infrastructure including Irrigation Water Management", covering drinking water, sanitation, roads, small-scale irrigation, and livelihoods, which is what 70% of the NSP sub-projects have funded. Program 3 is "Community Development", where the NSP with its CDCs is highlighted as the key delivery vehicle along with the National Area Based Development Program. Under Program 3 the ANDS notes that "Government will also look to enter into financing arrangements with CDCs to promote community ownership and responsibility for maintaining investments". So the intention was clearly that the CDCs fulfill key roles under both Programs 2 and 3 in this critical development Sector. The NSP has furthermore a focus on gender equity, both in terms of decision making and grants. The *Relevance* of the NSP is thus very high against key dimensions of the ANDS.

All stakeholders, and this evaluation team, believe that the NSP is producing important and very positive results, but the extent and sustainability of the results (poverty reduction, gender distribution impact, strengthened local governance, etc.) is not well documented. The lack of the baseline in particular makes it difficult to assess Impact and Outcomes. This will change when the Harvard study is completed in 2009. But the NSP will still have to develop a good Management Information System (MIS) based on the new and improved indicators, and systematically collect the data required on these variables. The MIS should track the entire activity cycle, from initial contacts through to expected Outcome. While it is difficult to carry out rigorous evaluations in parts of the country, the sheer size of the NSP make this a unique program that could generate considerable quantitative information of interest to a wide range of actors.

6.1.4 Institutional Arrangements and Sustainability

At the national level, the NSP remains a separate project with its budget as an identifiable part of the larger MRRD budget. All of its 500 staff are either national or international consultants. This in part reflects the uncertainty of the actual status of the NSP and the CDCs, as the NSP as such is structured as a temporary body and not an integral part of the MRRD.

For more mature CDCs, FPs have conducted linkage and management capacity workshops, introduced them to donors in the area, and tried to involve CDCs with other line ministry programs. These efforts are to ensure the *financial* sustainability of the CDC activities. But as noted before, without greater clarity regarding the longer-term objectives and organizational anchoring of the CDC, it becomes difficult to ensure their sustainability, either politically, financially or organizationally.

The MRRD has established the Community Led Development Directorate (CLDD). This unit only works with mature CDCs once these have fully utilized their block grant. The CLDD thus operates more or less in *parallel* to the NSP. This is different from the Ministry of Public Works (MPW) whose civil servants work directly with the NRAP consultants on project implementation, which may be a better way of ensuring longer-term sustainability of the program.

The legal status of CDCs needs to be clearly established. The CDCs are considered legally established bodies at community level by the NSP, and contracts are signed directly with them. NRAP, however, which targets the same beneficiaries and is also co-owned by the MRRD, does not accept the legal status of CDCs as formal contract partners and instead signs agreements with individuals or firms, though these are often members of CDCs or identified through the CDCs. Solving this uncertainty may contribute to simplifying other ministries' rural development activities as well, where clear structures for better collaboration and coordination would benefit all.

6.1.5 Looking Ahead

The sheer size, outreach and disbursement rate of NSP are impressive. Its outreach is particularly important but faces problems due to the worsening security environment. The question on the actual size of the rural population and the number of communities NSP is to reach has implications for the equity criteria of the program, which in turn impacts security. The numbers need to be clarified to estimate the real cost and necessary duration of the program to ensure its national coverage.

There is also a need to document results better. While the NSP has put in place an impressive program, some consider it to be a very costly undertaking, especially for a country that still is facing enormous un-met needs. However, unit costs of infrastructure are evidently less than for national programs, and FP costs also need to be seen in light of the complicated and time-demanding services they must provide. But the NSP should strive to document that the approach taken delivers superior results compared with other models for community-based development, both along governance and economic development dimensions.

The role that NSP and the CDCs are playing or may play regarding local stability, peace and reconciliation also deserves more attention. Anecdotal evidence claims that CDCs that are seen as legitimate and credible may be the most important vehicle for addressing such issues at the local level: the insurgency is supposedly not able to gain the same traction in these areas. This issue is clearly of strategic importance to Afghanistan over the coming years, so the first question is if the impression is correct. If CDCs play in fact a relevant role in stabilizing and/or promoting peace, do they need further training, resources, support to successfully play this role? If so, who is going to provide these, and how will performance be tracked to ensure resources are used toward intended results instead of perverting the peace process?

The role CDCs may play in local stability also changes the discussion surrounding CDCs and their future considerably, since they may now play a critical value-added role under Pillar One, Security, in the ANDS. The issue of "financial efficiency and effectiveness for what" thus takes on added importance, and should be discussed more carefully by ARTF stakeholders.

6.2 National Rural Access Program

The ARTF funds a component of the National Rural Access Program (NRAP), which became effective in March 2003. The original objective as defined in the Development Agreement is "t*o assist the Borrower in providing targeted social protection, and in the improvement of key rural access infrastructure, for the improvement of livelihoods of the rural poor in the Borrower's territory through the provision of: (i) emergency short-term employment opportunities for the poor in labor-based rural access infrastructure improvement Subprojects; and (ii) technical assistance for the implementation of the National Emergency Employment Program (NEEP)"* (see Annex E for a more complete overview of the NRAP).

NRAP is an umbrella program that covers rural emergency employment and road access projects. The shift over time has been away form the emergency employment towards a rural access road construction program. It is thus a key component of the *Rural Infrastructure* program 2 in Sector Six of the ANDS, where the objective is to ensure that 40% of all villages are to have increased access to markets, employment and social services through improved road connectivity by the end of 2010.

6.2.1 Main Project Results

By March 2008, the program was active in 33 out of 34 provinces, with funding also available for the last one. The program has built or rehabilitated 2,700 kilometers of roads, 14 airfields have been constructed or upgraded, and 5.7 million labor days have been contracted (the results figures for NRAP are somewhat confusing – see Annex E for more on this).

NRAP has built considerable technical, administrative and managerial capacity among local private contractors, which has been critical for local entrepreneurs to be able to compete for these small-scale construction tasks. This area must be developed further; however, as the IP notes, there is very little capacity in terms of financial accountability.

The program has worked hard to involve local stakeholders in the selection and planning of local roads. This is partly a means of protecting the construction crews and contractors in conflict affected areas, but also of ensuring greater ownership and interest in the program and thus building more participation and local empowerment, and strengthening the ties to and credibility of the central authorities in the eyes of local communities. Weaknesses exist in terms of links to provincial road plans, however, that should be addressed.

6.2.2 Efficiency and Effectiveness

It is difficult to assess the efficiency of the project since the data that are used as the intended target values seem to have been modified several times. This is undoubtedly due to the shifting priorities (away from a labor creation and social safety net focus to a more road infrastructure building program based on contracting private entrepreneurs). A simple issue like whether or not irrigation is in fact a key component in the program varies from one source to another.

Overall, however, the NRAP program is seen as a well managed and cost-efficient program that is building local entrepreneurship by setting out small-scale contracts that local firms can compete for and actually manage. The labor intensity of the works is also seen as appropriate to the circumstances in the country and in the rural areas in particular.

In terms of Outputs the program is reaching its Objectives. Whether it reaches its Outcomes is still too early to assess since a proper Impact assessment or even performance monitoring towards Outcomes has not been conducted. For the first part of the program (NEEPRA 1) there were no Outcomes developed and so in the first results matrix there were not Outcome or Impact statements. Those developed in the latest Technical Annex from 2007 remain unclear regarding planned Outcomes. The new Annex has Outcome statements and indicators, but they are often process statements difficult to measure as sustained positive change, and this makes the monitoring beyond Outputs difficult.

National capacity is being built to a certain degree as national staff is important in implementing the program. But the program is still handled largely as a project outside the MRRD and MPW, and few program staff are civil servants. The program is mostly run by national and some international consultants, implementing and quality assuring the inputs and Outputs. If the Ministries want more internal capacity from this large program more civil servants should be directly involved, more so in MRRD than in MPW since the latter has own staff who are civil servants directly engaged.

6.2.3 Relevance and Impact

The program was one of the National Priority Programs initiated in 2003 and is mentioned as a key program in the ANDS, as noted above.

It is difficult to assess potential Impact since no monitoring/ assessment has been done at this level. A Results matrix is not well developed or used in the program beyond the one presented in the technical annex, and this is a rudimentary one. A baseline study and impact assessment is currently being conducted with support from a research team from Harvard. This will provide the data NRAP needs for better results monitoring.

A key weakness is that while the ANDS has set a target of having 40% of villages reached by permanent road access by the end of 2010, NRAP reporting does not refer to this at all. What would have been useful is to know how many villages have received year-round road connections, what percentage this is of the expected total, and how fast progress has been compared with expectations. This would be a more relevant indicator than the number of kilometers of road rehabilitated, which is the key one being reported on now.

6.2.4 Institutional Arrangements and Sustainability

The NRAP program is co-owned by the MRRD and MPW. It is established as a separate organizational entity, with a joint Program Development and Coordination Unit. An Implementing Partner, UNOPS, supports the Program Implementation Units in the two ministries.

As noted earlier, there is a need for better collaboration/coordination with activities that are funded in the rural areas through other line ministries. While there is some joint collaboration with CDCs, UNOPS believes these are not fully independent and legally recognized bodies, and thus it is reluctant to enter into formal contracts with them (though UNOPS has evidently recently begun using CDCs for other rural activities it implements).

In terms of sustainability of the infrastructure, there needs to be a clearly defined maintenance strategy. It was difficult for the evaluation team to get a clear understanding on how the maintenance would be financed beyond the program. One of the challenges with program/project Outputs and Outcomes is thus clarity on who owns the infrastructure, who has responsibility for the maintenance, and if these actors are likely to have the finances to ensure sustainability. The technical capacity for carrying out maintenance is also not clear since most construction is now done on direct contracting to the program.

6.2.5 Looking Ahead

The program should continue its participatory planning process, but with more attention to links to the larger road programs at provincial level, and with more focus on medium-term Outcomes and Impact. NRAP should develop a more comprehensive results framework and identify which variables need to be tracked in order to ensure timely and realistic results reporting beyond the Output level. The program is monitored in a way that ensures good data at Input, Activity and Output level but that has not focused enough on the important Outcome and Impact data needed to justify the money spent in the longer term. The reporting on the lower level results is good, but could include indicators/ dimensions of quality (of tarmac for example) to make it even better.

Regarding the social and poverty impacts, there is currently very little data being collected, and this should be improved. Presumably NRAP will also be able to take advantage of the Harvard-supported baseline study of the situation in the rural areas.

NRAP needs to continue to secure good implementation and quality assurance through external assistance, but should focus more on capacity building of the ministries that should “own” the program’s results beyond its implementation schedule. This means that although it may be a good solution to “externalize” the implementation of NRAP as a program, the ministries involved cannot ignore the longer term responsibility of the results, especially the physical infrastructure. They therefore need to develop the capacity to execute this responsibility.

A key challenge is ensuring sustainable maintenance, developing technical and administrative capacities to carry out the physical works, but also the financial resources, to be sure funding is available for the repairs and necessary upgrading.

6.3 Microfinance Investment Support Facility

Taking account of the evidence for the link between improved access to finance and poverty reduction, in 2003 GoA established a project under the MRRD called the Microfinance Investment Support Facility for Afghanistan (MISFA). This was to be the vehicle through which the authorities and donors could channel funds to develop a national microfinance sector. MISFA was intended to (i) coordinate donor funding so that conflicting priorities endemic in post conflict situations did not end up duplicating efforts and distorting markets; (ii) help start-up microfinance institutions scale up rapidly and eventually become sustainable; and (iii) build systems for transparent reporting and instill a culture of accountability. MISFA's stated objective is "to achieve operational sustainability for most microfinance service providers and help them scale up outreach of financial services to meet the needs and demands of many poor Afghans, especially women."

This is in line with the ANDS, where under Sector Six the Program 4 is *Rural Financial Services.* The five-year strategic benchmark is that by end 2010, a total of 800,000 households – estimated at a little over 20% of Afghanistan's households – will have access to financial services.

While MISFA began in 2003 as a project, it was converted into a private non-shareholding company in March 2006, with the Ministry of Finance as sole sponsor. The company has a board of directors made up of two Government of Afghanistan nominees, three international microfinance experts, and two directors from the Afghan private sector.

6.3.1 Main Project Results

By late 2007 the sector had the following characteristics:

- 15 functioning Micro Finance Partners (MFP): 13 NGOs, one bank, and one credit union promoter;
- Presence in 23 of 34 provinces;
- 425,000 active clients (66% women); USD 102 million outstanding portfolio;
- USD 369 million total (cumulative) disbursements to clients;
- USD 153 average loan size – ranging from USD 92 to USD 1039 per MFP;
- 4% portfolio at risk at 30 days;
- 3 operationally sustainable MFPs. Combined, all 15 MFPs cover 89% of their operational costs from income earned on their outstanding loan portfolios.

In SY 1385 (March 2006-March 2007) the microfinance sector added 10,000 active clients per month and loan disbursements averaged USD 7 million per month. A baseline study carried out early 2007 also shows important social dimensions of the program (Greeley and Chaturvedi 2007):

- More than 80% of the loans were for setting up businesses or expanding them;
- These economic initiatives have provided self-employment to 414 individuals in the sample of about 1,000 households. Considering that this is a representative sample, employment created by all MISFA clients at the same of the survey is estimated to be around 650,000 (the study had an error margin of 6%);
- 64% female clients and 74% of male clients generated employment for themselves;
- 47% of urban clients generated employment opportunities for others. At 39%, this figure was lower for rural clients.
- 44% women clients reported absolute control over their money as against 18% non-client women;
- 80% women clients reported ‘improved attitude’ of their husbands and other relatives, both male and female;
- 91% of women clients interviewed reported enjoying good relationship with other group members;

- 47% of the female clients reported that they could rely on their group members for social advice.
- The program is spread across 23 provinces and covers all major ethnic groups;
- 70% of the program beneficiaries are women;
- Overcoming an initial urban bias, the program reports 40% rural clients.
- 72% of the clients reported an improvement in their economic situation as against 51% non-clients;
- 46% of the client households reported savings as against 31% non-client households.

The institutionalization of the MFPs is happening through the formal registry as private corporations, and the "Afghanisation" of the MFPs, and MISFA itself, through ensuring that the balance sheets and all financial transactions are now carried out in Afghanis. The capacity building is allowing the MFPs to rapidly become independent of external technical assistance. This is ensuring local ownership and embeddedness in the local economy and society, and thus administrative and management sustainability. The other dimension is financial sustainability, which is being attained through the very high repayment rates the MFPs are achieving, and with an interest rate spread that allows them to finance their own operations and even expand them. MISFA and its MFPs are thus moving rapidly in the right direction of self-financing and sustainable microfinance organizations.

6.3.2 Efficiency and Effectiveness

Compared to all realistic benchmarks the MISFA is performing very well. There are no obvious areas for improved cost-efficiency, especially since the major threat to MFP profitability is probably the security problem. This insecurity has lead to increasing portfolio quality issues, including delinquency which presents a challenge to achieving financial sustainability goals. The MFPs are already largely operating in the safer regions, and more in urban areas where the insurgency is also less of a problem.

With all of the MFPs now registered as companies, the link that any of them had with international parent organizations is cut so that they are all “Afghanized”. With currently five out of the 15 MFPs managed by Afghans, MISFA has put in place efforts to build national capacity to deliver program objectives. MISFA itself has now only two international staff whereas they started with seven internationals. Since June 2008, the new MD is a female Afghan expatriate.

6.3.3 Relevance and Impact

The MISFA is a priority in the ANDS Sector Six, Program 4 *Rural Financial Services.* This is to promote livelihoods and economic growth through the expansion of quality financial services by developing rural credit and micro finance institutions. So far, however, about 60% of the borrowers live in urban areas.

The program does not really have a performance monitoring system that systematically tracks results over and beyond Outputs. It has only now developed a results matrix where Outcomes and Impact are included, and the planned achievements at this level are still un-ambitious in terms of poverty reduction and social indicators. The project development objective is actually two-fold: (i) the operational sustainability of MFPs, and (ii) "meet the needs and demands of many poor Afghans". What MISFA is focusing on is the first part of this objective. The second one is poorly specified. When it comes to indicators they only have a numerical outreach but no social or economic or geographic (rural) dimensions.

6.3.4 Institutional Arrangements and Sustainability

MISFA was set up under the MRRD, but is now answerable to the MoF for legislative and financial matters, and to the MRRD for program quality assurance. MISFA has changed status from a MRRD project to a limited liability company under sole ownership of the MoF.

MISFA, both as a limited liability company and as a larger microfinance program, is well on its way to becoming sustainable. With all of the MFPs turned into corporations, this provides for a much wider pool of financing than just donor grants. In addition both MISFA and the MFPs will become more and more self-reliant through its larger lending base and the high repayment rates. This in itself will open space for sustainability beyond donor support. MISFA has therefore already begun looking at an exit strategy as far as donor funding is concerned.

6.3.5 Looking Ahead

The development of a sustainable finance sector below the formal banking sector and the ability to reach a large number of beneficiaries in a relatively short time are both huge achievements. The MFPs have been able to include women in management in a good way, and the Afghanisation of both MFPs and MISFA are positive developments. So is the fact that women play such a large part in administering the loans with about 66% of the borrowers being women.

The big question is if the intention with the program from the side of the donors really was to set up what has become a commercially very successful program. The Evaluation team believes that the donors thought they were funding a classic poverty reduction program through microfinance lending in the Grameen Bank mould. This would be more in line with the massive grants funding that has been provided. While most of the borrowers are not wealthy, it seems that a considerable share of the borrowers in both urban and rural areas are not among those social groups that poverty-focused MFPs would normally target. And this more mid-level social strata of the clientele is clearly one of the reasons the MFPs have been able to reach financial sustainability in such a short period of time.

Given the socio-economic situation of Afghanistan, building up this financial services sector is clearly of great importance: the small-scale rural and urban entrepreneurs who undoubtedly will be critical to the more broad-based growth the country needs over the coming period require this kind of small-scale financial services. But since this is largely a commercial market it is not obvious that donor grants should be focused so much on this.

Microfinance remains a powerful tool for poverty reduction, though it may not be able to reach financial sustainability so easily since the outreach and the capacity development costs tend to be higher. Studies show that the public goods dimensions of gender and poverty targeted microfinance are substantial, including issues like empowerment, organizational development, and that it is largely these kinds of costs that can justify continued donor support.

The Evaluation team would therefore encourage the ARTF stakeholders to assess the possibilities for MISFA to support two "windows": one for commercial small-scale lending based on purely business considerations, and a second more traditional microfinance for poverty reduction, where certain cost components related to the public goods and risk-reduction aspects of poverty reduction can justify continued donor grants funding.

This consideration should bear in mind the important achievements of MISFA and see this proposal in light of where MISFA is today. When MISFA was set up, there was no functioning banking system in Afghanistan. There was therefore a need for providing credit at reasonable cost to lower-risk borrowers, and establish a viable commercial basis for a nation-wide credit market. Once the financial sustainability of this *commercial* segment of the market has been established and is functioning reasonably well, it become possible to extend the credit markets further down to the poor, recognizing that this will necessarily entail some additional costs – which donors should be willing to fund.

6.4 Rural Governance, Livelihoods and Stabilization

The community based, or driven, programs above form the backbone of the investment window of the ARTF. They also form a very central part of the rural development efforts of the Government of Afghanistan. The ARTF has thus allowed a quick injection of funds and services into the rural areas where the vast majority of the population live. This is important, because a common mistake of immediate post-conflict reconstruction has been to concentrate on rebuilding the state, which in practice has meant that most resources have been concentrated in the capital and on strengthening national authorities, and in particular the executive part of government[4]. The community-relevant activities, including of course the rapid expansion of health and educational services through the operating budget, are seen as key reasons why more than 75% of the Afghan population assessed the Government's performance as positive (Asia Foundation 2007 a, b).

All the programs are central vehicles for the Sector Six in the ANDS, *Agriculture and Rural Development.* They all contribute to poverty reduction and the MDGs. This is important for the donors to the ARTF since these concerns tend to be the major justification for their aid funding.

While the NSP has both governance and rural development dimensions, NRAP and MISFA are more traditional development vehicles. But this view underestimates the contributions that the CBD programs make. All three provide considerable capacity building along different dimensions in the rural areas. But more importantly, perhaps, their impact on the security and reconciliation pillar of the ANDS should not be underestimated. The entire CBD portfolio should therefore be assessed as much in light of what the programs contribute to stabilization and national unity as to local-level development. Seen in this light, these programs may be among the strategically most important for Afghanistan's future, and their long-term predictable and large-scale funding critical.

All three programs are high cost and high risk since they support rural development in a situation of a fragile state and considerable conflict. The ARTF, as a pooling mechanism,

[4] In a study done on why the apparently successful reconstruction of Timor Leste exploded in violence in April 2006, key reasons were seen to be the neglect of the youth, and the concentration of resources in Dili to the detriment of rural livelihoods and local public administration (Scanteam 2007).

allows the programs to aggregate many funding agencies to both share the financial burden and the risks, as most donors would be unable to shoulder these risks alone.

6.5 Findings and Conclusions

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.

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.

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 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 the various bodies.

7 Investment Window: Capacity and Infrastructure

The other projects that were supported through the ARTF Investment Window can largely be grouped in two: support to capacity development (CD), and infrastructure projects. The team was asked to look at CD support, and to the Urban Water Supply and Sanitation (UWSS) project in the infrastructure sector.

The other on-going projects and the pipeline are briefly referred to before some conclusions are reached regarding the overall project portfolio.

7.1 Capacity Development: CSCB and MCP

In the area of public sector CD, the main intervention has been to finance a USD 13 million package consisting of the Afghan Expatriate Program (AEP) and the Lateral Entry Program (LEP), later merged into the Civil Service Capacity Building project (CSCB) (see Annex G for more details). By March 2008 these interventions were being phased out, to be succeeded by the new Management Capacity Program (MCP).

The Afghan Expatriate Program (AEP) was designed in 2002 as an independent program with a USD 10 million budget, fully financed through ARTF. It aimed to recruit some 60 highly qualified *overseas* Afghans as an emergency measure, and to place them in high-level *advisory* functions in government ministries. After some two years of discussions, implementation of AEP was assigned to the newly-created Independent Administrative Reform and Civil Service Commission (IARCSC). The IARCSC, in turn, set up a special management arrangement with the International Organization for Migration, IOM, for implementing the AEP. The program was launched in September 2004.

The Lateral Entry Program (LEP) was designed in 2004 also as an independent program, but was envisaged to complement the AEP. Planned in two stages, LEP initially aimed to recruit 100 Afghans *locally*, from international organizations and the private sector, and to deploy them in *managerial* positions in the civil service. Unlike AEP, LEP was not conceived as strictly an emergency measure: it was always hoped that a significant number of personnel would enter the civil service upon completion of their engagement, and that all LEP personnel would contribute to capacity development. An initial USD 3 million grant from ARTF would fully finance this first stage. In a second stage, subject to additional ARTF grants, it was foreseen that LEP would greatly expand and provide up to 1,500 personnel. With regard to implementation arrangements, LEP – like AEP – would sort under the IARCSC. But it was initially planned that LEP would have a separate management and oversight mechanism. However, by late 2004 the involved parties had come to the conclusion that it would be better to put LEP and AEP under a common management and oversight mechanism.

Thus, in mid-2005, AEP and LEP were merged into the new *Civil Service Capacity Building* project (CSCB). Implementation of the merged project was tasked to a new *Capacity Development Secretariat (CDS)* established within the IARCSC. After a few months of preparation, the CDS became operational and launched LEP in August 2005. The label "CSCB" has not been widely used, so most stakeholders continued to refer to the AEP and LEP as before.

In 2007, it was decided to replace the AEP/LEP/CSCB cluster with a new USD 10 million program, the *Management Capacity Program* (MCP). MCP remains in essence a scheme to provide state institutions with qualified personnel, and will also sort under the IARCSC. But there are significant changes in scope and strategy. Like its predecessors, the MCP will hire in expertise to fill key positions in the civil service. The objective is to recruit 240 highly qualified Afghan personnel on two-year contracts over a period of three years. It has a brief and loosely formulated results framework. MCP aims to achieve sustained improved performance in the management capacity of key departments, as it will focus on strengthening the so-called "five common functions" in public administration, including public finance management, human resources management, policy and regulatory design, and project management. Unlike earlier efforts, MCP aims to expand gradually from Kabul to also support provincial administrations, though the project will continue to focus the support on the executive branch of the state. It will fund civil service posts only, so positions at a political level will not receive support, and the judiciary, military and law enforcement agencies are also not be eligible for support.

Designed in 2006, MCP was foreseen to be implemented in the period 2007-2010, with the possibility for extension subject to additional grants. By the end of the first quarter of 2008, the project had still not been formally launched, though the first round of MCP recruitments was to start up. In practice the project is about six months behind schedule.

In the meanwhile, the activities of CSCB were being phased out: no new AEP or LEP recruitments were taking place, and already deployed persons were finishing their contracts.

7.1.1 Main Project Results

During the period 2005-2008, the AEP/LEP/CSCB recruited and deployed some 230 high-level advisors and managers to 20-odd public institutions – just under 100 on AEP contracts, the remainder on LEP terms. These externally recruited civil servants contributed to maintaining and strengthening a weak state apparatus during this critical period.

The deployments have been short-term and largely focused on performing line functions. Fewer of these staff than hoped for have chosen to enter the civil service on ordinary terms.

With regard to *capacity development* in host institutions, there are no quantitative or qualitative indicators defined or in use. Documents and interviews note that individuals have made significant contributions in their units. But it is unclear if this was due to the structural conditions provided by the program (TOR, prioritization by the AEP/LEP on posts that were likely to have capacity development impact) or more a function of the individual or the specific situation or task that was to be performed. How widespread the capacity development impacts were can therefore not be established, but it is clear that in the first phase in particular the key concern was to get qualified individuals into important policy and managerial positions in order for the public sector to perform vital tasks.

7.1.2 Efficiency and Effectiveness

The projects were slow to start up. From the design of AEP, it took some two years before a presidential decree approved the project and designated IARCSC to implement it, and another six months before the first recruitments commenced. With regard to the LEP, the period from approval to launch was much shorter.

There have been several changes in implementation arrangements, modifications to project designs have not always been well documented, there has been considerable staff turnover that has affected institutional memory regarding the history and achievements of the projects. There is little in the way of written documentation on actual results, and in particular there is no aggregate picture of CD outputs produced.

On the other hand, Waldman (2008) points out that less than 40% of technical assistance is coordinated with the GoA. This problem is of course not the case with ARTF projects.

Although a general CD objective is broadly articulated in project documents, it is clear that AEP and LEP were primarily gap-filling measures to fill critical posts. Improved capacity was seen as an intended spin-off from on-the-job training and advisers introducing good systems and processes. Regarding the qualitative work of AEP and LEP staff, informants state that many have played a key role in promoting better procedures and more structured ways of working, and have in general promoted and supported the government's public administration reform (PAR) process, including merit-based hiring and promotion, and the priority reform and reconstruction (PRR) program.

7.1.3 Relevance and Impact

The projects have always been aligned to government priorities in the field of public sector development. As of January 2006 the main planning instrument has been the I-ANDS, where Pillar Two was Governance, Rule of Law and Human Rights and Program Four is the PAR. It includes six benchmarks, where one is merit based appointments, and where the PRR process is central to attaining improved public sector performance. Both AEP and LEP staff, as noted above, have been important supporters of the PAR and its implementation programs. The follow-on MCP project will similarly be anchored in the ANDS.

The AEP and LEP were set up as temporary measures, and never defined long-term monitorable Impacts/objectives. If a study were to try to document Impacts, it should presumably concentrate on those results that have been referred to by a number of informants: contributions to new policies, procedures, and instruments. From what has been noted earlier, many of these contributions will have been *ad hoc.* At the same time, however, since advisers were meant to assist on policy, and senior managers are in part to improve processes and instruments, the fact that the AEP and LEP funded staff that had the skills that produced these kinds of outputs should largely be attributed to the project.

For the future, however, as there is now more stability in the public administration, it is important that MCP early on clarifies long-term goals and introduces a realistic results reporting system so that both short-term and longer-term results of this kind can be documented.

7.1.4 Institutional Arrangements and Sustainability

Institutional arrangements changed regarding AEP, as noted above, before AEP and LEP were merged into the CSCB, now to be followed by the MCP. Government is now clearly in control of the program, and it is managed by the appropriate government body, the IARCSC, which also manages UN and EU funded CD activities.

Remaining issues concern the links between the national role given to the Ministry of Economy, which is to be in charge of the national CD strategy under the ANDS and as such chairs an inter-ministerial commission, and management bodies like the IARCSC. CD is also the field that typically is most donor-driven, so the coordination and harmonization of other donor-funded efforts remains a challenge.

As far as sustainability of project results is concerned, the most likely ones would be public sector instruments and ministerial policies and processes. No concrete cases seem so far to have been documented, however, so this remains to be clarified.

Another dimension that has been mentioned is the more professional attitude that AEP-LEP staff have brought to public administration, providing on-the-job role models, laying the foundations for a more modern civil service culture, including acting as important supporters and "change actors" for the larger PAR efforts. While the role and importance of 230 AEP-LEP staff in a civil service of several hundred thousand should not be exaggerated, these staff were at the same time at the core of many of the ministries and thus had potentially a disproportionate influence. But this kind of impact is difficult to document, and even more difficult to sustain as individuals leave their posts

7.1.5 Looking Ahead

Stakeholders agree that the civil service requires skilled personnel at senior levels, to strengthen the administration in the immediate term and to lay the foundations for an increasingly non-corrupt and competent executive in the future. Many note the advantages of AEP-LEP type programs that bring in highly skilled Afghans whose familiarity with the country setting has made them immediately operational. One interesting comment was that this form of recruitment should in fact be a bigger and more ambitious effort, covering more advisers who are more strategically allocated across ministries and over time increasingly deployed also at the sub-national level. This is much cheaper than foreign technical assistance, more transparent, sustainable and predictable and usually cheaper than donor top-ups, and is a system that is owned and managed by the government so allegiance and control is clear, and also ensures that these recruitment programs can be aligned with other government systems and over time be merged.

The different pay-scales of AEPs versus LEPs, and between these two categories and ordinary civil servants, have caused some resentment and frictions. Moving to a unified pay scale, as is being done with the MCP, and a policy of narrowing the gap between MCP remuneration levels and the foreseen upward revisions with the PRR process also will make this issue more manageable.

While CD admittedly can be difficult to design and monitor, more work should be put into agreeing on objectives, clarify focus and specify expected results. More active oversight and reporting would help the beneficiary institutions and project management. A clear results focus and active learning as explicit components in all CD activities may also help define the kinds of TA or other forms of capacity building inputs that are required.

7.2 Infrastructure Development: UWSS

Urban Water Supply and Sanitation (UWSS) is intended to establish sustainable water and sanitation services in Kabul and 13 provincial towns. It is funded with USD 41 million by ARTF and EUR 11.5 million from Germany's KfW. The Ministry of Urban Development and Housing (MUDH) is responsible, and the project is implemented by the Central Authority for Water Supply and Sewerage (CAWSS) and Kabul Municipality (KM).

The project became effective in February 2005, but substantive implementation started up only three years later, in early 2008. One problem has been land acquisition for well-drilling, another has been procurement of construction supplies and technical assistance. Procurement has been done following World Bank procedures, and due to the complexities several contracts had to be re-tendered. The preparation period has also included the establishment of legal and organizational frameworks, including administrative units, associated mergers and asset transfers, and strategic planning.

Meanwhile, the security situation has deteriorated, pushing up costs. Original budgets also appear to have been too low. Now that the major contracting is in its final stages, the project seems to require an additional USD 15-25 million, though so far the project has only disbursed about USD 16 million.

Whereas the project was originally expected to close in mid-2007 and then was extended to the end of 2008, the closing date now will be delayed by a further 18 months to accommodate the construction schedule.

7.2.1 Project Results, Efficiency and Effectiveness

Since the project has only now begun full implementation, there are no results as far as the intended beneficiaries are concerned: public services in the area of urban water and sanitation have not improved.

One key decision taken, however, was that the project was not going to set up a separate Project Implementation Unit (PIU), but was going to be implemented through normal public sector offices and using their procedures, where appropriate. This has also been a major reason for the long delays, as there was initially little political leadership on the side of MUDH, and both CAWSS and KM suffered from weak implementation capacity. Since the project none the less insists on this implementation modality, changes are evidently now occurring at both political and capacity levels, which is an important achievement. Little of this is so far documented, however.

7.2.2 Relevance

The project is in line with the UWSS Sector Policy and Institutional Development Plan. It is in line with the ANDS Sector Four, *Infrastructure and Natural Resources*, Program 6, *Urban Development*, which by the end of 2010 is to "ensure that 50% of households in Kabul and 30% of households in other major urban areas will have access to piped water". Under Program 3, *Power and Water,* sustainable water resource management strategies and plans including for drinking water were to be in place by end of 2006, a target that was achieved.

The ANDS notes that a quarter of the country's 30 million people live in urban areas. In 2005, 20-22% had access to safe drinking water but only 8% to sanitation. However, 31% benefited from investments in water supply and 12% from investments in sanitation during the period 2001-2007. The project is thus highly relevant both to the situation on the ground, and to the ANDS.

7.2.3 Looking Ahead

The problems faced on the procurement side provide another example of the costs of operating under fragile conditions: markets are often limited with little competition and where actors are used to securing contracts through networks, family and ethnic loyalties, or bribes. Pushing for more transparent and competitive procedures therefore requires considerable time and resources before actors respond and markets begin functioning more as expected. Timetables and costing therefore need to be aligned with this reality.

Working through the public sector rather than establishing a Bank-managed PIU also has a price in terms of lower efficiency: the project became hostage to the existing political and capacity short-comings of the public sector. This again points to the need for a longer timeframe for implementation.

The public sector capacity building implications are positive, since CAWSS and KM will see their role and capacities enhanced. Along this dimension, effectiveness has thus prevailed at the expense of efficiency, which normally is a positive thing. For the public, however, this means delays in critical water and sanitation services, and it is not clear if this trade-off has been explicitly discussed and thus was a carefully considered choice[5].

7.3 Other Projects

The five other active projects in the portfolio are (i) the Education Quality Improvement Program, (ii) the Technical Assistance and Feasibility Studies Facility, (iii) Power Supply for Kabul, (iv) Emergency Power Rehabilitation, and (v) Rural Water Supply and Sanitation.

Four projects are furthermore in the pipeline: (a) Horticulture and Livestock, (b) Mazar-e-Sharif and Kabul power, (c) Kabul Roads, and (d) Private Sector Development.

7.3.1 Education Quality Improvement Program

The Education Quality Improvement Program (EQUIP) was approved in June 2005 with a USD 17 million budget. It has so far disbursed USD 7 million, and is expected to close at the end of 2009.

The program has been able to roll out at a very high pace, and is active in all 34 provinces as a national program. It contains three components, where the first one of school grants for quality enhancements and infrastructure development is the most important.

An important aspect of the program is the community mobilization and involvement. This includes setting up School Management Committees (SMC) and Parent Teacher Associations. By the end of 2007, almost 2,500 SMCs had been established, and about 1,100 had received quality education grants.

The project has a particular focus on girls' education, and has contributed to girls' enrolment rates going up considerably, and more female teachers being recruited and trained.

EQUIP has helped the Ministry establish and implement standards in a number of fields, including developing a menu of cost effective school building designs. This has lowered average construction costs considerably. It allows for more appropriate technology that in turn has enabled communities to both contribute more to construction but also take on more of the maintenance responsibilities. EQUIP expects to construct 500 new schools by the end of the project period.

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[5] In reality the mis-procurement and problem of land for drilling might have created the same time delays in any case, so there may not have been this trade-off between the two.

Perhaps more important is that a number of donors that were funding their own school construction programs are now channeling these funds through EQUIP as they see that this is both more efficient (cheaper) but also more effective and sustainable. This means that the Ministry has a much better overview and direct management control of a key part of the sector's development program, bringing more coherence and consistency to the sector. This will also in all likelihood reduce the long-term maintenance costs to Afghanistan that would otherwise have come from the many different donor designs, choices of materials, and quality of construction.

7.3.2 Technical Assistance and Feasibility Studies Facility

The Technical Assistance and Feasibility Studies Facility (TAFS) started up in March 2003 and is to end by March 2010. It has a budget of USD 18.5 million, of which about USD 15.2 million have been disbursed.

TAFS is to assist the government's weak capacity to prepare implementable projects and programs by funding firms and individuals that could do this work at the government's request. The project is considered to have delivered uneven results. Some of the contracts have clearly been important for the development of bankable projects, but particularly the results from the work of individual consultants seem to be difficult to identify. The capacity development impact is considered weak, though this is partly a problem of the design of the project but also a function of the lack of civil servants who could benefit from this kind of skills development.

7.3.3 Kabul Power Supply and Emergency Power Rehabilitation

The Kabul Power Supply project was meant as a short-term rehabilitation of specific infrastructure for Kabul power and lighting. It began in early 2003, has been co-funded with Germany's KfW, and was recently completed. The ARTF contribution was USD 7.5 million.

In February 2005, the Emergency Power Rehabilitation allocated USD 20 million for the rehabilitation of the Naghlu hydropower plant, to improve the power supply situation in Kabul. The project has experienced major delays, where the contractor began on-site mobilization only two years later. The first 25 MW unit is expected to be operational during the first quarter of 2009 and the fourth and last unit about one year later.

Both projects are largely engineering contracts with some supervision and training included.

7.3.4 Rural Water Supply and Sanitation

The Rural Water Supply and Sanitation (RWSS) project is a small-scale USD 5 million project to improve health of rural communities in eight provinces. The project is to deliver safe and sustainable water and sanitation along with health and hygiene education through funding the construction of water points and latrines, improving the capacity of communities, NGOs and private sector actors, and produce studies regarding alternative service delivery mechanisms. The project is managed by a separate PIU in the Water and Sanitation Department of the MRRD. The project became effective in February 2006, and is now expected to close at the end of 2008. A follow-on project is being prepared.

The program has selected four districts in each province for implementation. A number of planning and design issues have had to be addressed since there are numerous factors and differing conditions on the ground that must be considered including small towns versus peri-urban areas versus multi-village schemes. Robust designs are needed in order for the project to move to the next level: scaling up while ensuring financial and technical sustainability of the models chosen. The CDCs are playing an important role in planning and contracting the works as well as the mobilization for the health information activities.

7.3.5 Recently Approved Projects

The Horticulture and Livestock project is the first project under the Ministry of Agriculture that is receiving funding from the ARTF. The project is considered an important one by the Ministry, and complements in important areas the activities funded by the NSP. The budget for the time being is USD 6 million.

The power project is to largely to construct transmission connections down from the north to Kabul, and is budgeted at USD 57 million, while the roads project is to build on an earlier roads program in the capital, with a budget of USD 18 million.

7.4 The ARTF Project Portfolio

The current project portfolio shows a heavy bias towards CBD projects, where the three projects discussed in the previous chapter plus the RWSS together account for over two-thirds of the ARTF Investment Window allocations of nearly USD 750 million (see table 4.3).

Regarding capacity development, the three on-going projects – CSCB, MCP and TAFS – have total allocations of USD 41.5 million, and a closed project supporting financial capacity adds another USD 4 million. The CD portfolio, where only the MCP is really forward-looking, thus makes up only 6% of the ARTF Investment Window. If one adds the EQUIP project in a larger sense of capacity development, total allocations are USD 77.5 million – just over 10%.

There are three active infrastructure projects, but the two power projects are both old ones and about to end – only UWSS comes across as a "dynamic" and active part of the portfolio. Two other small-scale infrastructure projects have ended, one a telecoms project, the other an emergency roads project for Kabul. Together the infrastructure program has allocations of about USD 134 million, just under 18% of the total. The new power project in particular reflects the GoA's increased focus on infrastructure, where the ANDS emphasizes the need for new investments in power.

7.4.1 Future Structure of ARTF Project Portfolio

The competition for ARTF resources may be between infrastructure investments, which are among ANDS priorities, and continuing CBD activities, which many donors favor. Currently the SY 1387 allocations are USD 377 million for CBD and only USD 73.6 million for infrastructure, with USD 86 million for capacity development, education and legal sector reform.

The CBD expansion has a geographic *coverage* dimension, since the NSP and in particular MISFA still have not reached all areas. But there is also a question of the *density* of coverage where for example NRAP will at best have reached 40% of the rural settlements at the end of its project period. There is furthermore an on-going discussion on the future *intensification* of activities, of the development or the governance dimensions – or both.

On the development side, the idea is that CDCs should expand their remit to include more community-based activities through both NSP and other channels, such as other ministry programs and direct donor support. The horticulture and livestock program may be one such possibility.

There is also the concern that the governance and empowerment dimensions be strengthened. Since these are largely public goods concerns, the debate regarding the sustainability of CDCs needs to take this into account. As governance bodies the CDCs are clearly not expected to generate direct incomes, but the burden-sharing between the local community and the public sector is not clear. If CDCs are primarily seen as local bodies or even a CSO, financial dependence on the state is problematic. Given the poverty of most rural communities, however, they do not have the resources to fund the CDCs themselves at the level and with the systematic capacity progress that is required. External funding will hence be required for a considerable period (till the end of the ARTF in 2020?) if these organizational gains are to become solidly embedded in local society and thus more permanent institutions.

To the extent that there will not be sufficient resources in the ARTF to fund both sets of activities, there is a need to reflect on what should be prioritized, and the criteria for this.

7.4.2 Performance Monitoring

One of the common findings across the ARTF portfolio is the insufficient focus on results monitoring above the Outputs level (see Annexes D-H for the five projects reviewed). ARTF reporting is still focused at Input and activity levels and increasingly on Outputs, but not nearly enough on Outcome and estimated Impact. This seems to be a function of too little attention to developing good results frameworks during planning. Most of the frameworks in the Technical Annexes are not well specified, even though most of the programs have been updated and undergone revisions.

Most projects have relatively good monitoring systems that gather data at input and activity level, and these are used to verify progress of implementation. Since the overall frameworks are not well linked to higher-order objectives, however, they are not necessarily helpful for identifying a possible need for corrective action.

7.4.3 Cross-cutting Themes

The 2005 review noted that there was a lack of a clearer gender policy for the ARTF as a portfolio, and this critique still stands. As noted in the previous report, however, there are some projects that have developed good operational policies that are being tracked. NSP, MISFA and now EQUIP have good gender-disaggregated data, and the NSP has quantitative targets in the field of activities and women's participation in CDCs.

The wider concern of distributional allocations of resources and profile of beneficiaries of project activities is even weaker. Big programs that have national outreach such as NSP, EQUIP etc have data on the geographic spread of financing. More careful data on the distribution of benefits is required, however. MISFA has done one survey that shows allocations between urban and rural, male and female, geographic location and so on, and the data can be used to construct profiles of the different borrowing groups. What is needed is a lot more tracking of the results from the various interventions: who really benefited from the NSP block grants within the communities, and between regions; did the differences in average size of loans to women compared with men have any consequences for net returns on the Afghani, were urban investments more successful per Afghani, and so on.

There may be more important distributional questions deriving from conflict sensitivity analyses. Which social and ethnic groups benefit from power projects versus NSP block grants? What are the equity perceptions concerning NSP block grants? Are they seen as favoring certain regions or groups; are these perceptions largely correct or false when compared with the facts; do they reduce or increase social, geographic or ethnic tensions? How can the ARTF contribute more actively to reduce various kinds of conflict perceptions through its resource allocations and the distributions of the benefits from the various activities? The Harvard baseline and impact assessment study will certainly provide a lot of data that can begin answering these issues, but this needs to be developed further. Not least of all there needs to be a stronger effort at strengthening the national capacity to collect, analyze and disseminate such data and their findings.

The ARTF in general seems weak on tracking cross-cutting issues. This statement is of course too general and some projects will justifiably object to it. But the concern is that exactly because Afghanistan is a fragile state and there are a number of sensitive fault lines across the nation, it is important that there is as much factually correct information available as possible. This should be critically used and analyzed so that falsely based impressions can be answered while at the same time corrective action taken when it appears that some of the distributional inequities are in fact not being addressed as aggressively as they should.

While this is a big agenda and should not be a responsibility that the ARTF should have to shoulder by itself, as a pooled funding mechanism it is a logical source of considerable knowledge generation and institutional memory. The partners in the ARTF – the authorities, the MC members and the donors – should therefore consider how this concern can be better handled than at present.

7.5 Findings and Conclusions

The ARTF has funded public sector CD in the form of senior level managers on short- to medium-term contracts. This was done through the AEP-LEP projects, later merged in the CSCB and now to be followed by the 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.

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 re-structuring and unifying the approach to align better 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 so far not been pursued.

The UWSS 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 work through the normal public 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 more 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.

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 pipeline, however, consists mostly of infrastructure projects, in line with MoF focus on the power sector in particular. Whether this is a short-term change or heralds a structural shift will probably depend on how the parties to the ARTF prefer to prioritize resources. This potential competition for resources between infrastructure and CBD requires further discussion.

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.

8 Moving Towards the Afghanistan Development Trust Fund

The decision to extend the ARTF to 2020 allows the partners to think more strategically and coherently about the longer-term objectives for the funding, and to develop a more comprehensive performance monitoring framework and system.

This coincides with Afghanistan moving from post-conflict reconstruction towards standard development planning and implementation[6]. The instruments available to the authorities and its partners therefore need to adapt.

For the ARTF, it makes sense to think in terms of it becoming an Afghanistan *Development* Trust Fund, ADTF. The real reason for the name change is to think of the ADTF becoming an integrated funding mechanism for program-based financial support.

This transition from an ARTF to an ADTF needs to be planned and deliberate, where a three-year period for this transition may be a reasonable horizon. ADTF with whatever new guidelines are required could thus become operational as of SY 1390 – March 2011.

8.1 Moving to Integrated on-budget Support

The Government is working to make the ANDS a more operational and realistic planning instrument for the country's medium-term development. The costing of some programs is considered satisfactory while for others there is still work to be done. In general, however, the ANDS is pushing ministries and other public actors in the direction of defining their objectives and key programs, costing them, and prioritizing interventions, so that government, national stakeholders and external development partners can see a more comprehensive, realistic and prioritized development path for the country. Once the ANDS provides this kind of quality and credible programming, budget support can be considered.

This is some time off, however. In the meantime ARTF donors may wish to move from the reimbursement of recurrent costs and some project financing, to funding particular *programs* on-budget. In this way donors can ensure that funding is available to priority programs, such as CBD or capacity development. This may require some financing for the further development of the contents and quality controls donors believe are required for improved results delivery and performance monitoring (see below).

Recommendation:

- 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.

[6] One comment made is that this exaggerates the "normality" in Afghanistan, particularly in light of the recent upsurge in the violence. But the fact is that the state apparatus is developing, resources are increasing, and the expectations of the population is that the government will improve on delivering key services. The demands for standard planning and delivery mechanisms are logical, and will only increase, and the foundations for actually delivering on them are being created. If, on the other hand, progress is halted or even reversed, this would seem to simply mean that the ARTF continues in its current form of support to the budget and some projects.

8.2 Developing a Financing Strategy

The TOR for this task states that "The overall objective of this review is to develop recommendations on how the ARTF can be improved in order for it to become the primary financing instrument of choice for donor support of the Government's development priorities". This statement is in line with the views of both government and donor officials, that the ARTF should be a funding vehicle for the Government's ANDS.

What this means in practical terms needs to be clarified, however.

8.2.1 What should a Pooled Grants Fund Finance?

When discussing what ARTF as a pooled grants fund should finance, five points have been raised:

(i) Focus on what grants funds in general should fund versus what other forms of financing (credits, private sector investments) can finance;

(ii) Funding of activities that the donor community as a whole has said it would support;

(iii) Reduction in transaction costs through better harmonization and coordination of actors and activities;

(iv) Ensuring synergies between the different kinds of activities that are funded;

(v) Take advantage of economies of scale since the ARTF is now so large.

Grants Funded Activities

Grants funding ought in principle to be concentrated on activities and outputs that have strong poverty reduction and public goods dimensions. Activities that fall into these categories would typically be community-based or rural area development since this is where the vast majority of the poor live. Some sectors such as primary education and primary health care, basic water and sanitation would normally also be included in the public goods-category. Ensuring that girls and women get fair access to these programs and resources is an important aspect of them.

Large-scale infrastructure investments, such as power, roads and urban water, produce services that largely have private benefits. In principle these should be able to recover costs either directly (electricity and water charges) or indirectly (fuel taxes, vehicle registration fees etc). Benefits are often skewed in favor of urban-based middle-income households rather than the poor. For such investments it is often possible to find either credit financing or even private funding through public-private partnerships or other arrangements.

These kinds of infrastructure investments furthermore lend themselves to standardized contracting with easily monitorable indicators and performance payments. There are therefore usually no advantages of going through a pooled funding mechanism for mobilizing the funds. One exception would be that the pooled fund would mean un-tied financing, and to the extent that the tied funding for infrastructure investments lead to inefficiencies, the pool is an advantage. But indications are that donors financing the Ring Road program, for example, would not have accepted to un-tie their financing despite several studies pointing to major efficiency losses due to this (ActionAid 2007, Integrity Watch Afghanistan 2007c, Waldman 2008).

Donor Community Commitments

The donors have committed themselves to a series of principles in the *Afghanistan Compact* that might be easier to adhere to as a group rather than through individual programs and activities. These include the pursuit of environmental sustainability; gender equity; and a balanced and fair share allocation of resources to all parts of the country. Another dimension that ought to be paid much more attention is conflict reduction/reconciliation. This review has already noted that it is surprising how little attention is paid to the conflict consequences of resource allocations[7].

The reason it may be easier to pursue some of these issues through the ARTF than just bilaterally is that there are often some up-front costs involved in for example diagnostic studies, or developing appropriate approaches to environmental sustainability, that require in particular skills on the ground that it may be easier for the World Bank as Administrator of the ARTF to procure and put in place than for individual donors.

Ensuring fair and balanced geographical allocation of resources is of course more important in the case of large funds like the ARTF than for small bilateral programs. But if the ARTF has a balanced published picture, it can be used by the individual donors to see if their further programs may distort or support the equity of the larger picture. One concern that has been raised is that donors that also have a lead role for PRT activities may be tying so much of their bilateral aid to the PRT province that this skews the aggregate resource picture. The ARTF may be a good forum for discussing and addressing this issue.

Reducing Transaction Costs

Donors typically fund three kinds of activities: large credit-based investments; grants-funded projects; and various kinds of TA, usually in connection with capacity development (CD). The transaction costs per dollar disbursed are in general the lowest for large investment projects and the highest for TA projects. The latter projects are usually fairly small in terms of funding but quite management intensive because they involve a lot of personnel and other administration-intensive components. The transaction costs for capacity development/TA are thus, relatively speaking, very high.

Another important transaction cost relates to information. This is a particular challenge when it comes to CD, because CD activities tend to be small and fragmented and thus costly to get an overview of. This problem is even greater in conflict and fragile state situations. One thing is that the environment is less stable so there is a need to constantly generate new information. But the state as perhaps the single most important source of information may itself not be in a position to produce and disseminate information, or may not want to disseminate or provide a complete or true picture because of the complex political situation.

The ARTF has a comparative advantage along both these transaction cost dimensions. With regards to CD, the fact that ARTF provides untied funding is of particular value to the national authorities. While tied procurement of TA may be rational for the individual donor,

[7] A June 2008 study by the WB, "Intergovernmental Fiscal Relations and Sub-national Expenditures in Afghanistan" evidently addresses this issue, finding that expenditures are more equitable than originally thought. This kind of empirical verification is very useful to diffuse perceptions of inequity.

studies find that tied TA funding typically reduces efficiency by 30%. More important is that since the government is not the actual "owner" of the TA contracts, and thus has little leverage and possibilities of sanctioning unsatisfactory performance by foreign TA staff, the overall performance and rationality of the CD program can be severely reduced. This affects effectiveness and impact of the TA provided, as documented in numerous studies on TA.

A well-developed CD program based on clear criteria, such as Afghanistan's focus on the "five common functions", should be able to rationally procure the TA required at least cost thus strengthening also relevance and likely sustainability. ARTF funded CD programs could ensure that both efficiency and effectiveness of TA is considerably improved.

With regards to information costs, the ARTF functions as an efficient aid coordinating body, an information clearing house, but also as a producer and disseminator of information that otherwise would not have been available to the international community and the authorities. Some of the information is produced by the Bank as the ARTF Administrator looking at issues like public finance management, the structure of aid, resource gaps, etc. While some of this may have been produced also in the absence of the ARTF, the ARTF provides a forum both for dissemination and discussion of the material.

As the authorities take on more of production and management of information flows, much of this may be moved over to other fora like the JCMB or government events, so then the relative important of the ARTF would be reduced. In the short to medium term, however, the ARTF is seen by almost all actors as key to reliable and valid information, as a place to present, discuss and challenge information and views, and thus as an efficient and effective informational transaction body.

Ensuring Synergies within the Fund

Given the current structure of ARTF funding, there are several forms of complementarity that can be developed.

One thing is ensuring greater coherence across activities that are related. The most obvious example are the community-relevant activities. One issue that has been discussed is assisting in sorting out roles and responsibilities for local-level bodies like the CDCs across the various programs being funded, including the new livestock and horticulture project.

Another is synergy across types of activities. The ARTF is providing considerable support to the strengthening of the country's PFM through the recurrent window. This could be further enhanced by supporting CD for PFM specifically – that is, the ARTF might focus on the PFM components of the "five common functions" or CD for MoF specifically. By strengthening the quality of the PFM in general and the capacity of the MoF in particular, the efficiency and effectiveness of both the recurrent window but also the investment window might improve.

One might also turn this argument around and say that if a particular activity proposed for ARTF funding does not have logical linkages to other components funded by the ARTF – there are no obvious synergies from funding it – it should perhaps be given a lower priority. The reason for this is that if other activities can produce this kind of synergy (such as community based development, or CD for improved PFM), the ARTF should promote this, because the state is often not able to ensure these kinds of linkage effects that normally would be the responsibility of a well-functioning and coordinated executive.

Economies of Scale

There are a number of activities that the ARTF as a fund need to undertake where there are economies of scale. Most of these have to do with the quality assurance and information aspect, since these make up many of the "common functions" across projects and funds.

The costs of running and updating the web-site and disseminating information to the various parties often exhibit important economies of scale. There are some fixed costs involved such as preparing quarterly reports or updating project data where the marginal cost of one additional activity compared with the fixed cost of actually having to put out the quarterly report is quite low. Because of the high information costs in Afghanistan, and the request for more information on results, the ARTF has probably reached a level where it would be useful to have a full-time information officer handle information generation and dissemination.

Another area is monitoring and evaluation (M&E). The ARTF today has the PAM for the recurrent budget support and the different projects report according to their performance matrices. As has been noted, performance tracking is not as good as one might want, as there are missing baselines, performance is often tracked only to Output level, there are a number of cross-cutting concerns like gender and regional equity that are not well tracked, and the role of individual projects in larger programs – such as rural development – is not clear. ARTF projects in general provide better, more detailed and public reporting than bilateral projects (the team has several times tried to find other projects to compare to ARTF projects but was never given the required data), but it is clear that there is still considerable scope for improvement in terms of depth of knowledge, accuracy, breadth of coverage.

One of the challenges for a complex program like the ARTF is to interpret and relate the various activities to the larger objectives for donor funding. This means identifying and tracking indicators for program-level results, such as how rural poverty and life situations are affected by NSP, NRAP, EQUIP and possible synergies among them may multiply effects. If these can be identified it may have something to say for programming or sequencing of projects, for example, but even more may provide important understanding of the interactions between different projects and thus the need for ensuring that these interactions in fact are put in place.

The ARTF may also consider special steps – additional staff, more studies or other measures – to address corruption directly, and also track the conflict consequences and conflict levels of ARTF in particular but perhaps even external assistance in general.

Annual contribution levels of USD 700 million to the ARTF means that the overhead is around USD 10 million a year. The ARTF should therefore have sufficient resources to both contract more external studies for things like more and better baseline studies – which small bilateral projects often cannot afford – but also increase its professional staff to attend to the various quality assurance and value-adding dimensions of the ARTF that have been referred to above (returned to in section 8.4 below).

Recommendations:

- ARTF donors 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 ARTF funds. Criteria that might be considered are:

- 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.

8.3 Designing the ADTF: Key Programs

Since the need for recurrent cost funding will be diminishing in the coming years, ARTF/ ADTF funding should move towards more general on-budget support. But not all the programs in the ANDS are of equal importance, either to the authorities or the donors. An ADTF financing policy could therefore have as its core a set of key *program areas* that the parties have agreed to.

Some of these programs can be ones already included in the ANDS. But the ANDS, as most budget documents, is largely designed around the administrative structure of government. Programs are listed by the administrative unit that is responsible for managing the expenditures under a particular budget line. For the ARTF/ADTF donors, it may make more sense to look at thematic and topical programs. Given the criteria listed above, five such program areas are suggested below as potential key fields for future ADTF funding.

8.3.1 Program Area I: Strengthened MoF and PFM

Improving the country's public finance management (PFM) will remain a priority concern for the ARTF. The MoF is facing a massive change and development agenda. It is responsible for the move to program budgeting across the board, including improvements to the MTFF and the ANDS – contents, linkages, costings, coherence, comprehensiveness and quality of these and other PFM instruments. The MoF is strengthening the overall PFM system by rolling out the Afghanistan Financial Management Information Systems (AFMIS) to line ministries and the provinces, including ensuring that staff in the planning, budget and internal control areas are properly trained and perform as expected. The expansion of the public revenue system including full control over the various revenue sources represents a major challenge. The first Vulnerability to Corruption Assessments have pointed to weaknesses that need to be addressed to improve fiduciary control. The newly established Internal Audit unit must be strengthened and given the tools and leadership to perform.

The MoF has already undertaken massive upgrading and expansion of staff and functions, and as reported by the PEFA assessment, has done extremely well. But some of the capacity improvements are built on donor-funded TA, and in some departments many staff are project funded. The Ministry needs to get a long-term CD strategy in place focusing on sustainability of organizational and staff developments.

This strategy could either be a comprehensive one, focusing on two of the "five common functions", namely procurement management and public finance management, across the public sector. Or it could instead cover all the functions that the MoF itself is responsible for.

Given the weaknesses of cross-ministerial coordination and what appear to be the high costs of such coordination, the MoF may wish to focus on its own capacity, including of the provincial *mustoufiats.* In this case, however, the MoF should include as an important component of its CD strategy how it should be able to contract and manage the necessary TA directly itself, instead of relying on donor funding and thus also implicitly donor management of the TA. This poses the classical problem that acquiring and managing new capacity requires considerable own capacity to be in place in the first place – an issue the ARTF should be willing to assist with.

In line with this work, the ARTF/ADTF should then phase out its general support to the operating budget, but maintain an external Monitoring Agent in the form of a more general Quality Assurance Agent that will work with and monitor performance of key units in the Ministry, primarily by working through and with the Internal Audit unit, but with an independent oversight function.

Recommendations:

- ARTF donors should explore with the authorities the idea of having MoF capacity development as a priority area;
- 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;
- 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;
- 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;
- 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.

8.3.2 Program Area II: Community Based Development

The ARTF is already providing funding for a number of CBD activities: NSP, NRAP, rural water and sanitation (WatSan), and the rural components of MISFA and EQUIP can well fit into this category as well. As has been pointed to earlier, there are inconsistencies in how some of these programs are being implemented, such as the role and status of local bodies: CDCs, PTAs for EQUIP, local *shurahs* and the *maliks*, and their links to the formal public administrative system.

One of the things that a 2020-ARTF/ADTF can now contribute to is ensuring that there is a coherent long-term thinking behind the different interventions, and improve the predictability of the required funding. A key concern has to be the organizational development that is required for Afghanistan to build and maintain mobilization of both political energy and local human and financial resources for improved livelihoods and governance. This requires seeing the discrete programs in the larger context, and in particular to sort out the objectives for the support: improved and participatory local governance, versus economic growth and local livelihoods, versus enhanced local stability and security, versus improved local public administration and service delivery. These are not mutually exclusive goals – in fact they are all required and probably generate synergistic positive externalities – but they all require deliberate support, and in particular streamlining of modalities to minimize organizational conflict and unnecessary transaction costs.

The ANDS provides a framework that encompasses all of these concerns, of course, but the specific programs are structured to a large extent along administrative lines. The NSP is furthermore seen as a one-shot deal to provide some local-level infrastructure, which is very different from the way the issue has been presented above. From a CBD perspective, the NSP would probably be the linchpin around which many other activities would have to be addressed, because of its focus on local governance and thus strengthening of legitimate decision making and participatory monitoring.

An ADTF could thus assist the authorities ensure that the various interventions under the jurisdiction of different ministries has a coherent logic in terms of the longer-term objectives and prioritizations. It can help operationalise such a CBD approach by looking at some of the cross-program issues (delivery mechanisms, sequencing, building on organizational capacity already created, etc).

One particular issue that is worth looking into is how a CBD program should be structured and funded in conflict-affected areas. This has to do with ensuring flexible and fast-response funding and support for areas that are being secured and where the government wants to develop an immediate presence and provide key services to the population. This possible component should be discussed in the context of what PRTs are doing.

Recommendations:

- ARTF donors should discuss the option of designating Community Based Development as a priority for ARTF funding;
- 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 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;

- The ARTF should take it upon itself to become the main channel for predictable funding for CBD activities;
- 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;
- 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.

8.3.3 Program Area III: Capacity Development

It is estimated that donors have spent as much as USD 1.5 billion on capacity development (CD) activities in Afghanistan, mostly on tied TA. This is the most uncoordinated and probably least efficient area of donor support. For this reason alone, CD is an area where the coordination and harmonization effects of the ARTF could provide major benefits to all.

A draft National CD Strategy has been prepared for the ANDS, and a more elaborate National CD Policy with an operational CD Sector Strategy are to be produced. The draft Strategy has a good introduction in terms of general principles, and also describes the fairly elaborate management structure that is being put in place to ensure that there is both coherence across CD efforts, and between specific CD activities and the country's more general educational and training policies and programs.

The strategy is highly ambitious, covering all sectors and topics. It thus does not provide much guidance in terms of prioritization and focus. The management structure that is presented is elaborate and may not be very operational. The document therefore does not provide a basis for selecting priority areas and choosing which approaches to take.

The main argument for the ARTF/ADTF to get involved in CD in general is because TA funds – which seem to make up by far the largest slice of CD expenditures – can become much more efficient and effective as a large-scale, medium-term grants fund that the authorities could use to tender for the skills they want globally on an un-tied (though supervised) manner. This would ensure the alignment with government priorities.

Whether the ADTF wants to go further and become an "untying" mechanism for TA funds, or wishes to focus on financing TA and other forms of CD for particular purposes, should be discussed. The team would suggest that if the ADTF has funds that go beyond the needs of the MoF CD program, that this program be expanded to cover PFM in general, to cover all line ministries and other public entities linked in with the AFMIS system. This could also include revenue, procurement and internal control functions, thus going beyond the planning/budgeting/accounting functions that a narrow AFMIS approach might take.

The ADTF could thus function as an instrument to move TA and other CD financing from stand-alone donor projects into coherent programs that are government-led and in line with national efforts in the fields of training, education and organizational change. The ADTF should become the "best practice" partner to the authorities in the field of CD funding, it should consider promoting "good donorship" principles for CD funding that should encompass also the NGO and UN sectors as far as the local labor markets are concerned (reduce donor-induced distortions in local labor markets by improving transparency in salary levels and benefits, reduce incentives to rent-seeking and ratcheting up of salary levels through "beggar thy neighbor" competition for scarce local skills, etc).

Recommendations:

- ARTF donors should consider enabling the ARTF/ADTF into the primary funding vehicle for TA and other forms of CD assistance to Afghanistan;
- 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;
- 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.
- 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;
- 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).

8.3.4 Program Area IV: Infrastructure Investments

The ANDS has made infrastructure investments a key priority, with power a particular concern. The ADTF donors should support this where appropriate, considering the distributional consequences (which groups, regions are most likely to capture the benefits from the grants-funded investments), the alternative funding sources available, and how the ADTF can provide value-added beyond the simple financing (benefits monitoring, ensuring environmental standards are respected, possible economic rents are captured and recorded by the public sector, other forms for quality assurance and performance tracking is carried out on "best practice" principles).

Recommendations:

- 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.

8.3.5 Program Area V: Managing Economic Rent

The Aynak copper mine is expected to generate huge revenues once production starts up some years from now. There are possibilities for other mining operations in other parts of the country such as iron ore and coal, but also possibilities for gas and petroleum. In addition come possible revenues from transmission fees of various kinds if some of the regional infrastructure projects (gas pipelines, power lines and others) are realized.

As with all large-scale natural resource-based income streams there are concerns regarding how the public sector will ensure transparent and appropriate management of substantial lump-sum payments.

The Ministry of Mines has signed an MoU with a bilateral donor regarding linking up with the Extractive Industries Transparency Initiative (EITI). The EITI supports the public and appropriate recording of revenue streams, which is useful. But one might want a more comprehensive system for ensuring complete control of these large-scale revenue streams.

The authorities and the donors could agree that the ADTF could support the identification, setting up, running and quality assurance of a natural resources revenue management system. This should be a comprehensive system including the appropriate Parliamentary committees, Da Afghanistan Bank, the Ministry of Finance, the Ministry of Mines, the Control and Audit Office, the Attorney-General's office, civil society and private sector representatives in some public watch-dog body, and an external Monitoring and Quality Assurance agent.

There are several objectives with such a program. One is to oversee the revenue streams and their appropriate usage. But another is to contribute to clarifying roles and authority among the different institutions involved, since this is not always clear today (there are in particular examples of duplication of audit roles, lack of clarity on audit versus prosecution responsibilities, etc).

The design of such a structure requires careful considerations regarding skills and organizational structures, the separation of responsibilities yet clear accountability regarding decisions. The need for particular enforcement and intervention powers may raise contentious issues that can involve considerable interests.

Having the ADTF as the core donor actor in this complicated and highly political field can provide considerable value-added. One thing is that it allows the donor community to hammer out a common view on key problems, but also to give the ADTF access to the considerable experience and resources that different bilateral donors may have that are relevant to this program. For the authorities, it can provide both financial and political support in an area where there may be considerable differences of opinion regarding the solutions to be adopted. While the donors and the ADTF in particular should not take sides in a purely political discussion, the international community should have clear and unified views on the "best practice" design required to reduce or eliminate vulnerabilities to fraud and corruption.

Because of the size and complexity of the issues that will arise, the management of natural resources revenue can easily justify being a program on its own within the ADTF.

Recommendations:

- ARTF donors should explore with the authorities the idea of having ARTF finance a separate program for managing natural resources revenue (economic rent);
- 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;

- 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;
- 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.

8.4 Performance Monitoring and Donor Engagement

Program based funding requires a different level and more structured performance monitoring, and also would benefit from donors engaging more.

8.4.1 Performance Monitoring

Because the ARTF is working in a fragile state and conflict-affected situation, more dimensions require monitoring than under more stable conditions. This both concerns tracking changes to the general environment to see if current activities remain appropriate in contents, scale and scope, but also to oversee performance in terms of results delivery.

Much of this work should be done by national knowledge centers – private firms and think-tanks, NGOs/CSOs, academic entities – but international skills are required to complement and assist.

Such tasks can be carried out directly by ARTF staff; be contracted by the ARTF with national and international bodies; or be provided in-kind by donors.

Regarding the in-house capacity, the ARTF secretariat clearly should not grow too much. But there is a need to ensure continuity and institutional memory. Some of this can be done by entering into longer-term agreements with various national knowledge centers. But it is also important that the ARTF has sufficient capacity to manage the issues well and be able to address key concerns as they arise. Two additional staff posts seem particularly pertinent. One is a senior M&E officer who would be responsible for designing, tracking and analyzing the various performance systems and their outputs. Another could be a communications and coordination officer who would handle the information flows, to the parties to the ARTF in particular, but also ensure that ARTF information is made publicly available[8].

If the ARTF is going to move towards a program-focused ADTF, there may be a need for additional skills in some areas for the design and early intensive monitoring of activities, such as MoF capacity development, or for CBD. The funding for this can come from ARTF overhead, or donors can provide additional funding, or provide in-kind expertise either directly to the ARTF secretariat, or as inputs to ARTF processes. Regarding the latter, a

[8] The World Bank also administers the much smaller USD 500 million MDTF for the reconstruction after the tsunami in Aceh, Indonesia. This fund has an information/publicity manager as head of the management team, and a full-time M&E officer funded by one of the bilateral donors. One of the M&E officer's main challenges has been to adjust the performance matrix to the progress of the program, and also developing more coherent and overarching measures for the portfolio as such. She also assists the project managers with their performance reporting since some of them are primarily sector-technical people and not necessarily well versed in performance monitoring and indicators.

donor could fund a package contract with a local knowledge milieu and an international actor, for example over a three year period, to oversee the delivery of activities like a capacity program, more or less the way the MA does fiduciary oversight today.

Performance tracking also tends to be more difficult and time consuming when following programs. One thing is that the notion that it is possible to focus only on higher-level results (Outcome and Impact in a LogFrame matrix) is largely incorrect: risk analyses clearly show that it is important to follow early-stage activities if deviations are to be caught and corrective action taken before processes get badly off-track. In a highly complex environment like Afghanistan's it would make sense to track closely and early, and not wait for higher-level results to finally appear. Another is that it is often difficult to make the different components of a program come together, and the indicator system and baselines required may take time to get in place.

8.4.2 Donor Engagement

While monitoring needs to be stepped up, so too does donor engagement. It is important that they assume the policy and fiduciary oversight functions that they as the donors in fact should. For most donors this requires increasing the intensity and managerial level of commitment to ARTF/ADTF matters.

This is important because if the ARTF is to re-focus on program-funding, there are some "lessons learned" that should be borne in mind. The first is that the transition from project to program funding often requires both a scaling-***up*** and a change in skills mix. While many donors believed that by grouping projects into programs they could save on project management time, they tended to badly under-estimate the resources required to understand more strategic and sector issues, and the consequences of programs internalizing many of the previously project-external risk elements.

The donors have so far received an extremely good deal with the ARTF. For only 1.5% of their contributions, they are getting management and external quality assurance, a distributed risk sharing arrangement, access to senior government officials and policy papers that otherwise most would have difficulties arranging. The need for increased quality assurance activities may require additional funding, either by providing higher overhead to the Administrator, or making direct contributions in the form of staff or services, or a combination of both. But it is not likely that it will be possible to both deliver quality in a high-risk situation and continue maintaining the very low management fees.

Another challenge is for donors to assume a formal voice on the MC. One option is for the MC to have two donor representatives, who could be elected on an annual basis among the donors that for example have contributed more than USD 10 million, or have contributed at least USD 5 million over the past 12 months, or whatever criteria the donors agree to.

The Donors Meetings should presumably be where the principles/criteria for ADTF funding and the actual programs to be funded should be discussed and decided. The MC could then focus on the performance monitoring and fiduciary oversight issues, reporting back to the Donors Meetings as they do now.

At the same time, most donors are *not* going to step up their presence in Kabul significantly. There is therefore a need to be innovative and find flexible ways of addressing this. One thing is that technology can facilitate. The IDB today participates in MC meetings largely through phone link-ins. This could be extended also to bilateral donor members on the MC. Videoconferencing coupled with real-time on-line document revisions (virtual whiteboards etc) is also possible (though may make meetings vulnerable to technology glitches).

Recommendations:

- An ADTF needs to design a Fund-wide performance system that tracks results from activity through Outcome levels. This M&E system should include the cross-cutting dimensions (gender, environment, conflict-impact, corruption), and rely heavily on the use of local knowledge centers supplemented with international skills.
- 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;
- Donors need to assume their policy and fiduciary oversight functions as funding moves towards program financing. This requires more and higher-level time commitments;
- 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;
- Greater donor participation should be facilitated through greater use of technology and holding some ADTF meetings in the region.

8.5 ARTF as Preferred Channel for Aid

The ARTF is the first post-conflict trust fund that is transforming itself into a medium-term funding instrument. This is an exciting change, and one that should be welcomed as it provides an anchor for longer-term predictable financing for better-programmed and coherent reconstruction and development activities.

The ARTF has the pre-requisites in place for carrying out this successful transition: a government that is committed to improved medium- and long-term planning and implementation, and an international community that is willing to stick with a partner even in a conflict-affected situation.

Over the next two years, the ARTF will continue to fund the recurrent budget and those projects that have been agreed to. As new funding possibilities come up, however, the ARTF and its partners should begin taking decisions about the principled transformations they want to see put in place, and the sequencing of phasing in program funding. If the Ministry of Finance is interested in a CD program, it would seem like a likely area to begin. It may not involve much money to begin with, and is a field that is well known to all parties and where the elaboration of the program itself should be possible to do over a reasonable time horizon.

In a similar vein, the authorities and donors can agree to fund other programs and thus allow the ADTF to evolve over time, in a step-wise fashion.

This transformation period, as stated earlier, can probably be done over a three year period. One part of this transition process should be to develop the principles for improved management, such as "good donorship" for Capacity Development built around a labor-market friendly approach. Another part would be to build an improved results reporting system as an integral part of the program development. Finally, getting in place a more proactive information and dissemination policy and practice should further ensure that the ADTF will indeed become the financing vehicle of choice for the donors, and the authorities.

Recommendation:

- ARTF parties should agree on a step-wise transition over the next three years to a program-based ADTF funding structure.

Annex A: Terms of Reference

These Terms of Reference describe activities required for the full evaluation of the operations of the Afghanistan Reconstruction Trust Fund (ARTF) during the period since the previous evaluation dated March 2005 to July 2007. The evaluation is being carried out under the oversight of the ARTF Management Committee on behalf of the ARTF Donor Committee. These terms are divided between Part I: Objectives and Key Themes and Part II: The Consultancy.

Part I: Objectives and Key Themes

Background

The Afghanistan Reconstruction Trust Fund (ARTF) is a multi-donor trust fund administered by the World Bank and funded by 27 donors. In the six years since inception, ARTF has grown to become the main source of pooled financing for the Government of Afghanistan's recurrent budget, mobilizing over US$2 billion to date. The ARTF has also increasingly supported priority investments in the Government's reconstruction program. Eleven ongoing investment projects, covering infrastructure, rural development and TA/Capacity-Building/Education have been approved for a total commitment of over US$ 365 million.

The ARTF provides a mechanism for coordinated funding of reconstruction activities in line with agreed priorities of the Government. The ARTF was designed to promote transparency and accountability of reconstruction assistance; reinforce the national budget as the vehicle for aligning the reconstruction program with national objectives; reduce the burden on limited government capacity for the first few years of re-engagement, while promoting capacity building over time; partially fund essential recurrent budgetary expenditures required for the government to function effectively; and provide a convenient mechanism for donors to fund government's priority investments.

The ARTF is overseen by a Management Committee comprising representatives of the ADB, UNDP, IDB and the World Bank. The Government of Afghanistan, represented by its Ministry of Finance, is an observer on Management Committee. The Management Committee is responsible for reviewing progress and for making key management decisions, including for the approval of investment projects proposed for ARTF financing. The World Bank is the Administrator of the fund, and employs a Monitoring Agent to assist in ensuring proper fiduciary management related to recurrent cost financing. Day-to-day ARTF oversight and operations are coordinated by a country office team in Kabul under the authority of the World Bank Country Director for Afghanistan with a subsidiary reporting arrangement to the World Bank Country Manager.

Results of the First Evaluation of the ARTF

During January to February 2005 a first evaluation of the ARTF was undertaken by an independent consulting group. The evaluation's findings were positive and concluded that the fund was in line with best practice principles for structuring and managing funds in post-conflict situations. It made recommendations concerning reporting, government-donor dialogue, investment window focus and future changes in the broad strategic direction of the ARTF. In particular, the evaluation suggested that the MC widen the distribution of its meeting minutes, that the ARTF enable policy dialogue between the government and donors like other budget support operations, that there be greater focus on public financial management strengthening through the ARTF. Looking forward, the evaluation noted that with the planned completion of the ANDS in 2008, the ARTF should naturally become the key mechanism for financing the national PRS – in a logical transition towards donors directly funding the treasury.

Overall objective of the Second Evaluation

The overall objective of this review is to develop recommendations on how the ARTF can be improved in order for it to become the primary financing instrument of choice for donor support of the Government's development priorities. This process will involve an assessment of the performance of the ARTF since the last review (in terms of relevance, effectiveness, efficiency, impact, and institutional arrangements). Across all categories the evaluation should check whether the recommendations of the previous review have been implemented. It is expected that these findings will inform the development of recommendations for future improvement.

A. <u>Relevance</u>

The evaluation should assess the ongoing relevance of the ARTF and its objectives to the priorities and policies of the Government and donors. The context for ARTF activities is fluid in Afghanistan; all mechanisms for delivering assistance should adapt to changing circumstances. In particular, the evaluation should determine the extent to which the recurrent window function is still consistent with expected macro economic and fiscal performance of the Government of Afghanistan. The evaluation should also determine whether ARTF maintains a comparative advantage in funding government investment programs through the investment window, and if so, whether it is correctly defined and articulated. The team should evaluate whether the programs in the investment window clearly align with the Government's strategy and whether the investment window portfolio overall has a clear and measurable strategy, including cross-cutting themes such as gender, corruption, counter-narcotics and the environment. Finally, the evaluation should assess the role of ARTF financing in conflict affected areas where non-traditional actors may be engaged in development activities.

B. <u>Effectiveness</u>

The team should evaluate how effectively the ARTF supports the Government's budget, including meaningful comparison with other mechanisms, such as General Budget Support. Key points to focus on include the effectiveness and transparency of the Government's budget process, prioritization, predictability and ownership.

With regards the investment window, the evaluation should consider the extent to which ARTF investment projects achieve their stated goals, including, broadly, whether ARTF funding has development government capacity to deliver services nationally.

A further aspect of effectiveness concerns the linkages with donors: in particular, the system of donor expression of preference. Could the present system of donor expression of preference be updated or improved in any way, given the increasing importance of ARTF as a mechanism for investment financing?

C. Efficiency

The evaluation should consider the extent to which impact and benefits arising from activities have been commensurate with the level of effort and resources expended. The evaluation need not include quantitative evidence but rather take a broad view of the efficiency of the overall ARTF management relative to the outputs, and, based on that view, make recommendations for improvements. It will be interesting to understand whether particular areas of ARTF activities (from resource mobilization through project preparation and clearance to implementation) emerge as particularly efficient or particularly inefficient. A key indicator of efficiency in the Afghan context will be the ability of the ARTF to respond rapidly to a fluid set of priorities.

The financial management of the ARTF is a key aspect of efficiency. This evaluation should consider

- financial sustainability: i.e. has the ARTF effectively raised funds in this period; has it pursued the right type of funding; what can be done to improve the predictability and sustainability/efficiency of fundraising and better align fundraising to the government's budget; what are appropriate target levels of funding going forward?
- financial management: i.e. has the ARTF managed its finances effectively and efficiently in this period?

D. Impact

The evaluation should consider the overall impact of the ARTF as well as some of the key project-level impacts. At the 'global' level it will be important to demonstrate the impact that the ARTF has had both on donor coordination, harmonization and alignment; as well as the impact on the Government's efforts to increase revenue generation (including whether the ARTF substitutes for Government's efforts to increase revenue generation). A key question going forward will be whether the ARTF is consistent with the targeted macro economic and fiscal performance of the Government of Afghanistan.

At the project level, the evaluation should consider the extent to which the ARTF has promoted economic development, poverty reduction or improved livelihoods. The evaluation follows the quarterly portfolio review with the Government and will be able to assess whether this review system is adequate to monitor implementation, adjust approaches and address bottlenecks. One important area the evaluation should look into is the impact of ARTF funds flow (see section above on efficiency) on the impact that projects can have.

The evaluation should briefly assess the geographical balance of the impact of ARTF financed investments. In addition, it should consider ARTF's ability to support more prioritized, coherent and effective development at the sub national level and provide recommendations on this issue.

Since the first evaluation, ARTF donors and the Administrator have agreed on and started to implement the ARTF Performance Assessment Matrix (PAM). The PAM is designed to provide the evidence platform for policy dialogue between ARTF donors and the

Government. The evaluation should take this opportunity to consider PAM design and assess whether benchmarks and indicators are reasonable and aligned with the Afghanistan Compact and Afghanistan National Development Strategy.

E. Institutional Arrangements

The evaluation will consider institutional arrangements in the light of the first evaluation's recommendations, the changing country context and the future strategic direction that the ARTF is aiming to take. Institutional arrangements refers to ARTF oversight by the MC, ARTF linkages with donors, ARTF linkages with the Government and ARTF's internal institutional set-up.

With regards oversight, the evaluation should consider the extent to which the MC functions effectively as a decision-making body, particularly regarding setting the strategic direction and the pipeline of investment projects.

With regards ARTF-donor linkages, the key questions concern results reporting, and enabling a policy dialogue between donors and Government. At a larger level, the evaluation should assess the impact of the ARTF on the broader context of aid coordination. Aid in Afghanistan is often referred to as fragmented, imposing high transaction costs on Government. Furthermore, about two thirds of assistance is delivered off- budget making the Government's job of coordinating it difficult. The evaluation should consider the extent to which the ARTF can improve this environment, both through country systems strengthening, as well as through the consolidation of funds. In assessing this complex question the evaluation team can consider the structure of the quarterly donor meeting cycle in relation to the JCMB and the Afghanistan Development Forum etc.

With regards ARTF linkages with the Government, the evaluation should consider how institutional arrangements impact the ARTF's ability to strengthen country systems, including financial management, the national budget process, audit and procurement as well as inter-ministerial coordination. The responsiveness of the ARTF to Government priorities as well as the mechanism enabling dialogue with the Government should also be key areas of focus.

With regards the ARTF's own institutional set-up, the evaluation should review the linkages between ARTF investments and World Bank projects and project teams, as well as the staffing profile of the ARTF. The ability of the Administrator to respond adequately and swiftly to both Government and donor stakeholders is a critical determinant of the effectiveness of the World Bank's Administrator role. The evaluation should also review the ARTF project appraisal, monitoring and reporting arrangements.

F. Sustainability

The question of the sustainability of the ARTF concerns both the overall impact and the project level impact. At the 'global' level the evaluation the question concerns the impact ARTF operations are having on Government capacity, as mentioned previously, regarding core state functions (in particular those concerning PFM and service delivery) and revenue mobilization. The evaluation will not be able to consider the sustainability of each individual project, however, it should consider whether investment projects funded by ARTF are more or less inclined to be sustainable, given the mode of delivery. Another key area for the ARTF is how lessons are learned and incorporated back into the ARTF operations.

Recommendations for the Future

The evaluation will provide recommendation across all areas outlined above. In particular, it should aim to make recommendations, based on findings, to address three core concerns looking ahead:

- The need for adaptation of ARTF operations to the changing demands of political actors, economic circumstances and rising insecurity in Afghanistan. In addition, preparing the ARTF for its future role of channeling resources towards ANDS priorities.
- The ARTF's relation to key sectors and the potential for a more strategic vision of sector prioritization.
- The ARTF's contribution to transitioning the Government away from a reliance on donors to fund recurrent expenditures and the concomitant transition in ARTF priorities towards investment, sectoral/programmatic expenditure.

Part II: The Consultancy

ARTF management requires detailed inputs to this process from a team of independent experts in the sector. The consulting team will carry out the evaluation exercise, whose objectives are described above, and will oversee a consultative process which will enable the ARTF Administrator to make recommendations to the ARTF Management and Donors Committees.

Deliverables

The consultancy will have the following deliverables:

Evaluation Proposal – 30 November, 2007

The Evaluation Proposal will outline criteria and indicators for performing the evaluation along the lines laid out in Part I of these terms of reference. The Evaluation Proposal will also set out the methodology and process envisioned to achieve the objectives, including a list of contacts, a detailed mission plan and a full work-program. Finally, the proposal will provide a cost estimate of the work. The cost estimate should include the costs of consultant time, travel and associated expenses, communications, production of all reports (8 copies) and other expenses.

Interim Evaluation Report – 1 February, 2007

The draft evaluation will contain:

i) Draft assessment of general performance against agreed indicators in the period of review;
ii) Draft case studies of ARTF-funded investment projects;
iii) Preliminary assessment of the key issues relevant to ARTF strategy;
iv) Detailed work program for finalizing the evaluation.

The draft evaluation report should be submitted to the ARTF coordinator and World Bank Country Management Unit no later than [30 January, 2008.]

Final Evaluation Report – 28 March, 2008

The final evaluation report will incorporate comments from donors, ARTF Management Committee and the ARTF Administrator. The report should be submitted to the ARTF coordinator and World Bank Country Management Unit no later than [28 March, 2008.]

ARTF Contributions

ARTF will provide significant inputs to the process of the evaluation exercise. These contributions include:

- Staff Time: up to 2 staff weeks of Country Office staff. Up to 2 weeks of ARTF team in Kabul and the Country Management Team in Washington, DC.
- Costs of any consultation meetings
- Costs associated with the participation of ARTF MC members, Donor Committee members, Government Counterparts and other partners in all consultations
- Rapid and timely input to draft reports produced by the team
- Costs of production of final evaluation document for formal distribution to ARTF partners and clients

Management

This consultancy will be coordinated by the ARTF coordinator in collaboration with World Bank Afghanistan Country Management and facilitated by ARTF donors who will actively participate in the exercise, with input from the ARTF Management Committee.

Annex: Staffing and Resources

The consultant will provide a review team consisting of two to three professionals exhibiting a range of skills.

Team Leader/ Institutional Specialist

The team leader will be a specialist with at least fifteen years of experience in the area of Public Financing and Administration, with a focus on institutional issues and aid effectiveness, of which at least five years should be experience of working for, or closely partnering with, international organizations working in developing country contexts.

The team leader/ institutional specialist will:

- Lead the team, providing direction and oversight to the evaluation exercise
- Design and oversee the evaluation, including taking responsibility for planning regional travel, coordinating meetings with key informants and ensuring there is adequate liaison and coordination with ARTF project units
- Liaise directly with the ARTF Management team and keep them informed of the activities of the team.
- Take the lead in developing the indicators for assessing ARTF performance, particularly in the area of institutional reform

- Take the lead in evaluating the institutional arrangements within which ARTF operates, including its institutional positioning, governance, management, partnerships, financing, and staffing
- Provide oversight and continuity for the evaluation exercise
- Take lead responsibility for ensuring all reports are produced in time, and be available for review and discussion with ARTF Management members in the latter stages of the consultancy.

Project Implementation Specialist

The Project Implementation specialist will have at least ten years of developing-country expertise in the area of improving service delivery to vulnerable/conflict affected communities and households. At least five years of this experience should be directly linked to the delivery of reconstruction assistance in a post conflict environment. This expertise may have been gained in the private sector, NGO, or public sector.

The Project Implementation specialist will:

- Participate as a full member of the team in the evaluation development
- Lead the evaluation of the investment project portfolio of ARTF work, including evaluation of products and activities, the development of appropriate indicators of success, and the development of a future strategy
- Take the lead in the project evaluation exercises.

Annex B: Documents Reviewed

Government of Afghanistan

Afghanistan National Development Strategy (ANDS):

- Afghanistan National Development Strategy: A Full Strategy for Security, Governance, Economic Growth and Poverty Reduction. First Draft, Government of the Islamic Republic of Afghanistan, February 2008.
- National Capacity Development Strategy for the Islamic Republic of Afghanistan. Initial Draft, ANDS Secretariat, December 2007.
- Benchmark Status Report – March 2006 to March 2007. April 2007
- Improving Aid Effectiveness for Reducing Poverty. Draft. January 2008.
- Integration of Provincial Development Plans (PDPs) into the ANDS. January 2008.
- Anti-Corruption Strategy. ANDS Crosscutting Issue. Draft. January 2008
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CIC (2007): "Annual Review of Global Peace Operations 2007. Briefing Paper". In collaboration with the UN Department of Peacekeeping Operations. NY, March.

CIC and Political Economy Research Institute (PERI) (2008): "Right-Financing Security Sector Reform". Peter Middlebrook and Gordon Peake, NYU, January.

CIC and PERI (2007): "Promoting Group Justice: Fiscal Policies in Pot-Conflict Countries". Frances Stewart, Graham Brown and Alex Cobham. NYU, October.

Chand, Satish and Ruth Coffman (2008): "How Soon can Donors Exit from Post-Conflict States?" Center for Global Development, Working Paper 141, Washington DC, February.

Christian Michelsen Institute (2005): "Humanitarian and Reconstruction Assistance to Afghanistan 2001-2005". With Copenhagen Development Consulting and the German Association of Development Consultants. Bergen, October.

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- **Lateral Entry Program (LEP),**
- **Management Capacity Program (MCP),**
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Annex C: List of Informants

Government of Afghanistan Officials and Advisers

Ministry of Finance

Mr. Wahidullah Shahrani, Deputy Minister

Mr. Alhaj Muhammad Aqa, Director General of Treasury

Mr. Farid Tanai, Aid Coordination Officer, Budget Directorate

Mr. Saifullah Abid, Regional Economic Cooperation Adviser

Ms. Tia Raappana, Advisor to the Minister

Ms. Joanna R. Veltri, Economic Adviser to the Minister

Mr. Vishal Gandhi, Accounting Adviser, Treasury Department (BearingPoint)

Monitoring Agent

Mr. Paul Koets, Head of Unit, International Development, PWC Netherlands

Mr. Rahim Salmanpour, Resident Manager, PWC-Netherlands

Ms. Mala Badal, PWC-Netherlands

Mr. Muhammad Hussain Hazary, Headcount Manager, Monitoring Agent

Mr. Ali Hashimi, Monitoring Agent

Ms. Mozgan Khosravi, Monitoring Agent

Mr. Hushmatullah Dost, Monitoring Agent

Ministry of Rural Rehabilitation and Development

Mr. Ahmad Masood Kamal; Finance Director (Deputy Minister)

Mr. M. Nassir Temori; Monitoring and Evaluation Team Leader, NRAP

Mr. Khalil Rahman; Road Director

National Solidarity Program (NSP)

Mr. Wais Ahman Barmak, Executive Director

Ms. Hermione Youngs, Adviser, Programmes and Policies

Mr. William Middlemiss; Head, Financial Management

Ms. Linda Hasse, Head, Finance Department

Mr. Kamir Merchant; Director of Operations

Ms. Jovitta Thomas; Head, Quality Assurance

National Rural Access Program (NRAP)

Mr. Vincent Janoo; Deputy Director (UNOPS)

Ms. Sonja Varga; Social Inclusion Advisor (UNOPS)

Attorney General's Office

Mr. Abdul Jabaar Sobet, Attorney General

Control and Audit Office

Mr. Sayed Mohammed Essa Musawi, Deputy Auditor General

Mr. Gul Mohammed Munir, Director, Foreign Grants Audit Department

Mr. Bashir Ahmad Rashidy, Senior Auditor

Mr. Richard Rundle, Technical Adviser (BearingPoint)

Civil Service Commission

Mr. Rohullah Osmani, Director of Capacity Development Secretariat

Afghanistan National Development Strategy Secretariat

Mr. Nematullah Bizhan, Afghanistan Compact Monitoring Manager

Ms. Shukria Kozimi, Capacity Development Sector Coordinator

Ms. Dora Shan Ismatri, Coordinator, Economic Governance

Kabul Municipality

Mr. Nessar Ahmad Ghori, Head of Sanitation of Kabul City

Urban Water Supply and Sanitation program (UWSS)

Mr. Mohammed S. Kumbakumba, Chief Technical Adviser

Mr. Vincent Janoo; Deputy Director (UNOPS)

Central Authority for Water Supply and Sewerage (CAWSS)

Mr. Najibullah Patan, President of CAWSS

Other Informants, Afghanistan

NSP Facilitating Partners

Mr. Mohammad Ashraf, Provincial Supervisor, CARE

Nr. Mohammad Wakil Nayeb, Program Manager, Rural Assistance Program, CARE

Mr. Nader Mohammad Taher, Monitoring and Evaluation Coordinator, CARE

Ms. Esther Mcintosh, Governance and Rights Coordinator, IRC

Mr. Bahman Hares Takween, Economic Literacy and Budget Analysis Project Coordinator, ActionAid International Afghanistan.

Mr. Bijay Karmacharya, Rural Programme Advisor, UN Habitat

Mr. Osman Himmat, Planning Coordinator, Afghanistan Development Association.Mashal, Mr. Munir, Capacity Building & National Solidarity Programme Officer, Afghanistan Development Association

Microfinance Institutions

Mr. Amjad Ali Arba, Managing Director, MISFA

Mr. Mahir Momand, Manager, Finance and Administration, MISFA

Mr. Amit Brar, Director of Operations, MISFA

Ms. Shumsa Tahseen, Strategy and Communication Adviser, MISFA

Mr. Zakera Wahidi, General Manager, Mofad Microfinance Company

Others

Mr. Paul Fishstein, Director, Afghanistan Evaluation and Research Unit (AREU)

Mr. Lorenzo Delesgues, Country Representative, Integrity Watch Afghanistan (IWA)

Mr. George Varughese, Country Representative, Asia Foundation

Mr. Andrew Beath, Ph.D. Candidate, Department of Government, Harvard University

Donor Officials, Afghanistan

Asian Development Bank

Mr. Joji Tokeshi, Deputy Country Director

Canada

Mr. George Saibel, Minister/Development, Head of Aid

Ms. Georgina Wigley, Counsellor, Development

European Commission

Mr. Erwan Marteil, Counsellor – Head of Governance and Rule of Law section

Germany

Mr. Martin Kipping, First Secretary, Development Cooperation and Economic Affairs

Netherlands

Ms. Yvonne Stassen, Deputy Head of Mission, Political

Mr. Martin de Boer, Deputy Head of Mission, Development

Ms. Jannike Vrijland, Second Secretary, Development Cooperation

Norway

Mr. Janis Bjørn Kanavin, Ambassador

Ms. Inger Sangnes, Development Counsellor

Mr. Jan Erik Rasmussen, First Secretary, Development Cooperation

Ms. Hanne Melfald, Political Adviser, PRT, Maimana

Mr. Hans Dieset, Developmenet Adviser, PRT, Maimana

Spain

Mr. Javier Cuchi, Counsellor, Development

Sweden

Mr. Jan-Olof Eliasson, First Secretary, Development Cooperation

United Kingdom (DFID)

Mr. Marshall Elliott, Country Director

Mr. Christopher Pycroft, Deputy Head, Program

Mr. Freddy Bob-Jones, Economic Adviser

Ms. Alice Mann, Head, Livelihoods Unit

Mr. James Fennell, Conflict Advisor

Mr. Paul Manning, Head of Internal Audit, *London*

Mr. Ian Thomas, Internal Audit Team Leader, *London*

United Nations Assistance Mission to Afghanistan

Mr. Christopher Alexander, Deputy Special Representative of the Secretary General

Mr. Bo Asplund, Deputy Special Representative of the Secretary General

Ms. Minna Järvenpää, Senior Coordinator, Joint Coordination and Management Board

Mr. Shakti Sinha, Senior Governance Officer

United Nations Development Programme

Ms. Anita Nirody, Country Director

Mr. Ian Holland, Deputy Country Director

Ms Mithulina Chatterjee, Senior Programme Officer

Mr. Vladimir Krivenkov, Project Manager (LOTFA)

Mr. Michael Schaadt, Programme Officer, (SBGS)

Mr. Raj Kamal, Project Manager, Capacity for Afghan Public Service (CAP)

United States (USAID)

Ms. Sepideh Keyvanshad, Senior Program Officer

Mr. Lane Smith, Capacity Development Specialist

Mr. Elias D. Banquillo, Team leader, Sub-national Governance Program

Mr. Christopher Becker, Program Officer, Program and Project Development Office

Mr. Gregory E. Taitt, Procurement Officer

Mr. Ridwqan Rahman, Sub-national Governance Adviser (BearingPoint)

World Bank

Mr. Alastair McKechnie, Country Director

Ms. Mariam Sherman, Country Manager

Ms. Ludmilla Butenko, Operations Adviser

Mr. Hugh Riddell, ARTF Operations Officer

Mr. Yoichiro Ishihara, Senior Economist

Mr. Paul Sisk, Senior Financial Management Specialist, Budget Support Manager

Mr. Nigel Coulson, Senior Public Sector Specialist, MDC and CSCD Task Team Leader

Ms. Susanne Holste, Senior Transport Specialist, NSP and NRAP Task Team Leader

Ms. Karine Fourmond, WSS Specialist, UWSS and RWSS Task Team Leader

Mr. Stephen Rasmussen, MISFA Task Team Leader

Mr. Sunil K. Khosla, Senior Energy Specialist, Power project Task Team Leader

Ms. Asila Wardak Jamal, Social Development Specialist

Mr. Martin Comley, AML/CFT Expert, Financial Market Integrity (Washington)

Mr. Amit Ramchandani, ARTF Analyst

Mr. Deepal Fernando, Senior Procurement Specialist

Mr. Mohammad Wali Ahmadzi, Finance Analyst

Ms. Shekeba Muheb, Program Assistant

Annex D: National Solidarity Program (NSP)

Part 1: Project Description and Structure

a. Project name: National Solidarity Program II (NSP II)/ TF090205.

b. Timeframe

1. Technical annex (proposal) date: 7 November 2006
2. Proposal approved in the Management Committee (MC): 7 December 2006
3. Proposal/ Grant signed by Ministry of Finance (MoF) (Effectiveness date): 15 May 2007
4. First disbursement/ allocation to program/ project
5. Original and Revised end date: 30 September 2009
6. Timeframe from Tech annex (proposal) to effectiveness to implementation (activities)

Year	2003	2004	2005	2006	2007	2008	2009
Nat'l strategic frameworks	NDF	NDF	NDF	I-ANDS	ANDS	ANDS	
NSP I	1. 20 Nov 2. 23 Dec	3. 5 April			5. 31 March		
NSP II				1. 7 Nov 2. 7 Dec	3. 15 May		5. 30 Sept

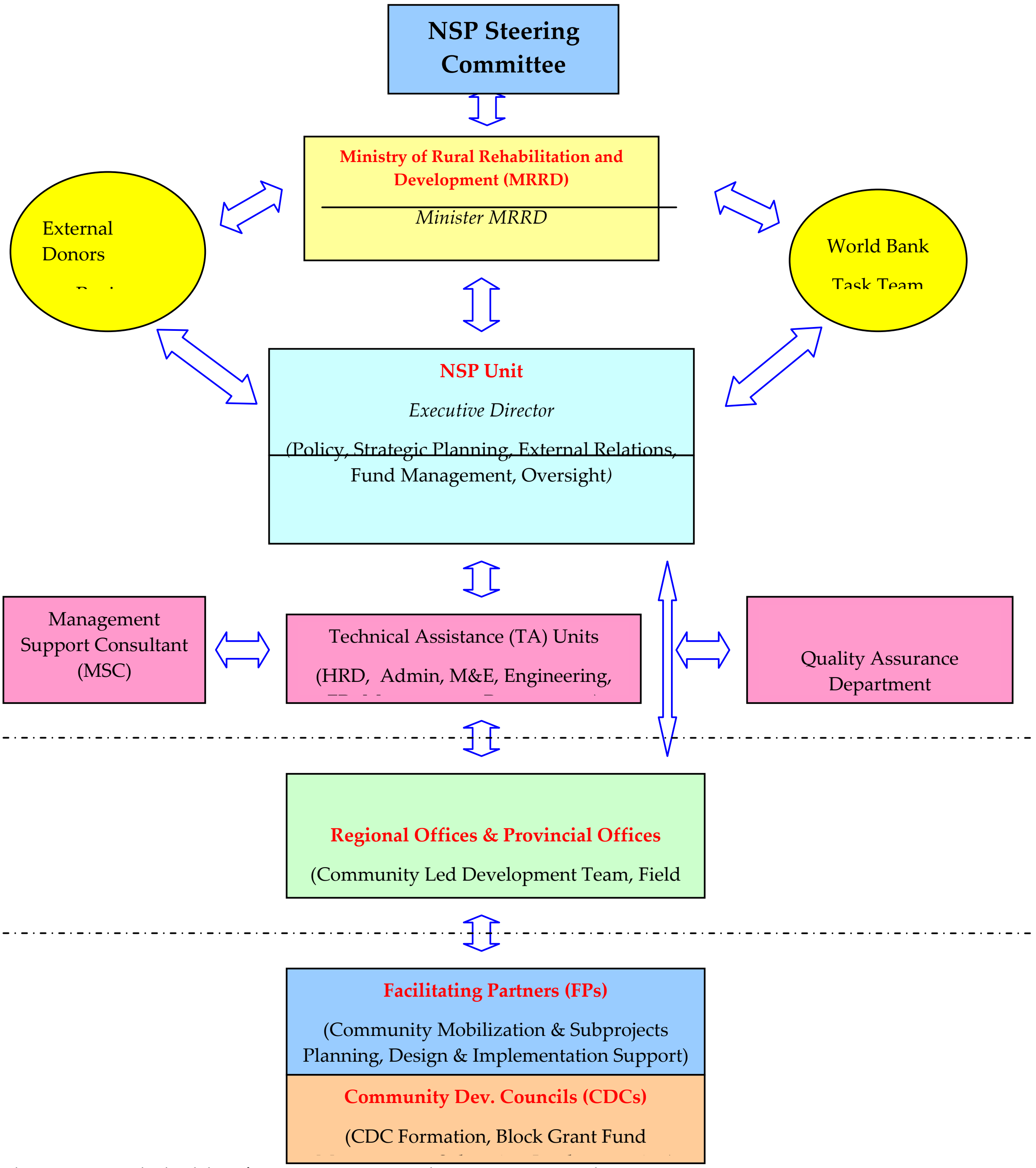
c. Institutional implementation arrangements

The NSP is executed by the Ministry for Rural Rehabilitation and Development (MRRD) and as such its budget forms part of the MRRD budget proposal that goes to the Ministry of Finance (MoF) for approval. The NSP is established as an external unit, with its own program staff (national and international consultants) of close to 500. An inter-ministerial Steering Committee provides guidance to the NSP on overall policy, strategic planning and management, and for integration with other rural development programs

Program management is supported by a Management Support Consultant (MSC) contracted to the British consultancy firm Maxwell Stamp. The MSC has full oversight and implementation of two departments (Finance and MIS) and hence all staff, both national and international in these departments are contracted directly by the MSC. The MSC also provides NSP technical assistance in the form of one international consultant to six other departments, while all other staff are contracted directly by the NSP. This arrangement was initiated under the former NSP Oversight Consultant (GTZ) in September 2006 and was formalized with the new MSC as of April 2007 (the structure of NSP is shown in Figure D.1).

NSP presently contracts 28 Facilitating Partners (FP) that support the implementation of the program: establishment of Community Development Councils (CDCs) and implementation of sub-projects. The FPs are national and international NGOs and UN HABITAT, who work on fixed budget, lump-sum contracts, monitored and quality assured by the NSP.

Figure D.1: Structure of National Solidarity Program



d. Main stakeholders/partners on implementation side:

Stakeholders include the MRRD, the NSP donors, and the Ministry of Finance as it is responsible for the inclusion of the NSP budget and the disbursement of the ARTF funds to the program. Donors fund either through ARTF only, through ARTF but also bilaterally, or directly bilaterally. Donors support NSP through their general contribution to the ARTF or by "preferencing" their support to the NSP through ARTF. Some donors in addition have signed agreements with NSP to earmark their funds to particular provinces.

e. Intended beneficiaries and geographical coverage:

The project is to reach all rural communities in Afghanistan with a population estimated at 19 to 26 million people. The total number of communities to be reached under NSP I and NSP II is 21,600, 90% of the NSP's estimate of 24,000 rural communities.

The actual number of communities is the subject of considerable discussion. The concept of community, and the administrative-geographic definition of each one, are still being settled. The I-ANDS uses a figure of 38,000 "villages", which is a slightly different concept, but seems to be the same as what the Ministry of Interior calls "rural settlement", but where their figure is 41,000. In a more recent study, the NSP talks of 32,800 communities, in part recognizing that the "community" concept used earlier often included areas or groups that were too big to really include in only one community.

f. Project Structure - Results Framework or LogFrame:

The Results framework provided in the Technical Annex 7 November 2006 is shown below.

Project Development Objective	Project Outcome Indicators	Use of Project Outcome Information
To lay the foundations for strengthening of community level governance, and to support community-managed subprojects comprising reconstruction and development that improve access of rural communities to social and productive infrastructure and services	Around 21,600 CDCs across the country avail of basic social and productive infrastructure and other services ERRs for community projects over 15% Evidence that the O&M is in place for the completed projects and that the infrastructure services are used appropriately by the targeted communities for the purposes intended (i) At least 60% of CDCs functioning to address critical development needs as identified by the villagers. Evidence of an increased level of participation of women in the community decision making (ii)	Use this information to ascertain if NSP is on track in increasing access to basic services and building representative local bodies at the village level. Assess if NSP is on schedule in contributing to I.-ANDS targets.
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Use of Intermediate Outcome Information**
Outcome 1: The consolidation of a framework for village level consultative decision making, participation and representative local leadership	**Outcome 1:** At least 21,600 CDCs established through democratic elections and secret ballot At least 4,200 women sub-committees established within CDCs in the culturally sensitive area At least 21,600 CDPs developed and completed	Track if NSP is expanding across the country as scheduled, Ensure that women are participating in CDC development. Training information is important to ensure long-term sustainability of CDCs. Monitor level of community consultations by the CDCs to ensure that the CDPs are representative of the communities' priorities.
Outcome 2: Social and economic productive activities implemented and maintained by the communities, addressing the basic village needs	**Outcome 2:** At least 16,000 subprojects financed and completed At least 50% of subprojects completed with O&M in place Around 7.8 million people benefit from water supply and sanitation subprojects Around 5.6 million people benefit from irrigation systems Around 5 million people benefit from energy/power projects Around 3.2 million people benefit from road projects	Measure the contribution of the NSP to the Interim Afghanistan National Development Strategy I-ANDS agriculture and rural development benchmarks, as well as the impact of the program on poverty reduction
Outcome 3: The development of human capital and livelihoods that improve household welfare	**Outcome 3:** At least 3,800 livelihood/human capital development projects implemented At least 96,000 people benefit from livelihood/human capital development projects	Measure the contribution of the NSP to the I-ANDS rural and human development benchmarks, as well as the impact of the program on poverty reduction

(i) Via reports from independent technical and social audit teams that visit the field, review available self-reporting data, interview stakeholders, and judge the results.

(ii) Via field observation and report to measure whether women participate in the decision making process of CDCs, and whether the priorities identified by women were reflected in the community development plans.

g. Crosscutting themes

The Technical Annex for NSP II deals with both potential Environmental and social impacts through the suggestion and outline of an Environmental and Social Management Framework, including challenges relating to Land Acquisition, Minority groups, Cultural property, Poppy cultivation and Land Mine risk management. These should all be monitored by a Safeguards Management Performance system. Examples are outlined in the Technical Annex. The framework and its suggestions for methodology are very good and relevant.

h. Current performance status

By mid-March 2008 22,323 communities had contracts with FPs. 21,420 communities have been mobilized, 20,502 communities have elected councils, and there are 20,182 community plans developed, which is about where the program was expected to be by mid-2009.

37,559 sub-project proposals have been reviewed, 36,310 sub-projects have been approved and 18,434 completed. The total disbursements to block-grants directly to community bank accounts, as of end April 2008, are over USD 455 million.

The break-down of sub-projects show that Water and Sanitation is the largest category with 24.3%, followed by Transport 22.3%, Irrigation 16%, Power 15.2%, Education 13.4% and Livelihoods 6.6%. In addition 17 million labor days have been created by financed projects.

The NSP is working on an assumption regarding the number of people and communities to be covered. If these numbers have to be substantially adjusted upwards, as may be the case, this will have an impact on the time line and required budget for the project as well.

The FPs are concerned about the flow of funds and their contractual status, in particular the time allowed for facilitation in their current contracts against the targets set for their payments. They also face increasing security constraints and costs. NSP is trying to address the issue of implementation in relatively high risk areas by a new strategy allowing flexibility in its modus operandi.

The strong donor support for the NSP is shown by the considerable preferencing of their funding to this program.

i. Project budget and disbursement

Project funding comes from several sources: (i) ARTF USD 244 million, (ii) IDA USD 120 million plus JSDF funding USD 30 million, (iii) Other bilateral funding USD 130 million.

The NSP has faced serious disbursement problems due to the structure of the financing of the block grants. These were originally split into three payments, and particularly in SY 1384 (March 2005-March 2006) many CDCs experienced delays of about one year in the second tranche payment, which was 40% of the grant. Some of the larger NGOs advanced funds from their own resources to the CDCs, but several of the smaller FPs had to suspend operations due to lack of available funding.

There were several causes for the financial problems. The donors were slow in transferring the funds to the ARTF, and MoF procedures slowed the disbursements to the MRRD. The most important reason, however, was that the ARTF gives priority to funding the recurrent costs of the government, so while there were donor funds earmarked for the NSP, the ARTF had to use these to cover a cash flow gap to the budget. At the same time, first tranche releases for new block grants had to be disbursed as projects were approved from new entrants to the NSP program.

Another issue has been the allocation to the NSP through the budget. In SY1386 the original allocation in the national budget was insufficient compared with the actual needs, leading to a need to adjust the budget towards the end of the fiscal year. A similar situation may be occurring in SY 1387, where the approved budget for NSP is USD 274 million and the actual need as estimated by NSP requires an additional USD 106 million.

Donors continue to preference their funds to the NSP, which on the face of it should be of advantage to the program but which creates unhelpful rigidities to the overall ARTF.

Part 2: Project Planning and Results

a. Objectives and Results Framework/Performance Review System:

Are the Objectives clear? Are they understood and agreed to by key stakeholders?	The Objectives are not clear in themselves, and there is certainly some confusion on the actual vision of the project impact (end state of the CDCs). There is general agreement among all stakeholders that NSP is primarily a governance building and rural rehabilitation program. However, the actual role of CDCs in future and whether or not they will serve as the "village councils" included in the Afghan constitution is yet to be finally decided.
Which national strategies or plans does this project link to? How?	NSP is the key vehicle for delivery of the I-ANDS Sector Six, *Agriculture and Rural Development*, with particular relevance to Program 2, infrastructure. NSP covers nearly all of the priority investments for rural infrastructure: drinking water, sanitation, roads, and electrification of villages. With NSP continuing to roll out, the GoA states that it will support financing arrangements of CDCs to promote ownership and responsibility of maintaining investments. As with NSP, there is a focus on gender equity, both in terms of decision making and grants.
Is there a Baseline for the project? Is it operational?	There was not a baseline developed for the NSP upon initiation. The NSP II did have more baseline data established before it was started as a continuation of NSP I. Presently a baseline study is being conducted, led by Harvard University, and it will significantly improve the program's ability to analyze results in future.
Are Indicators developed for the Objectives? Are they easy to monitor?	The Indicators developed for the Objectives are operationalized, but they have not been fully used to measure performance of the project till now.
Have any changes been made to any of these project elements? If so, what are the changes, and when were they introduced?	The revision of results frameworks is on-going.
Is project management using this Results Framework to manage the project? What has been the experience?	As far as the evaluation team can see the use of a results framework till now has been sporadic. The NSP is currently revising its results framework, with support from WB expertise, and the new framework should be more operationally useful.
The implicit understanding of the NSP objectives are relatively well understood by stakeholders, but a clearer "vision" of the end state of both the production and the social capital of the program needs to be elaborated.	

b. Risk

Was a risk assessment done as part of planning? Was it realistic?	The Technical annex contains a risk assessment; the evaluation team finds the assessment to be thorough and reflect the most relevant and important risks at most levels (se table below). The risks identified are outlined in the table below, as are the mitigative actions proposed. The technical annex outlines a risk mitigation strategy (see table below).

Type of risk	***Brief description***	***Measures to mitigate risk***
Fiscal affordability	Estimated cost of the project is USD 525 million of which IDA grant is USD 120 million (23 %). It is expected that the balance USD 405 m (77%) is provided by ARTF, JSDF and bilateral donors. There is a risk the full project outcomes may not be achieved if the co-financing is not fully materialized.	• Diligent program planning and rollout, budget and cash management in the NSP II. • Close coordination of the MRRD with the Ministry of Finance to mobilize funds from donors. • The NSP II will have a full time External Relations Specialist to liaise with ARTF and other donors for mobilizing funds for the NSP. • Financing Agreement includes safeguards to impose diligent budget and fiscal management for the NSP II.
Elite capture of benefits	Risk of village elites (landlords, elders, commanders) collude to capture the benefits.	• External facilitation of the establishment of CDCs through secret ballot and the participatory sub-project planning process.

		• Focus on public rather than private goods, and transparency in budgeting and the use of block grants by communities.
Corruption	Managerial and financial weakness in implementing agencies and at the community level	• Same as above, as well as financial management arrangements where MRRD, Facilitating Partners, and Management Support Consultant staff do not handle cash. • Complaints Handling System and external audits to be introduced.
Delays in block grant disbursement	Managerial weakness in implementing agency	• Financial Management functions and Block grant management outsourced. • Improved planning and management capacity building arrangements to be introduced.
Decreasing political support for NSP	Support for NSP among cabinet members could seriously weaken in the event of changes in political leadership.	• Empower inter-ministerial Steering Committee to make key decisions. • Communication strategy and dissemination of MIS data to harness political support. • Impact evaluation and analytical work conducted to provide information on the NSP's achievements.
Decreasing security	Deteriorating security conditions may prevent operations in specific areas.	• Close monitoring and flexibility in the design and planning. • Community involvement in monitoring, to complement the FP's monitoring.
Perceptions of inequitable ethnic coverage	Deteriorating security conditions may require suspension of operations in the south and east, fostering perceptions of inequitable ethnic coverage.	• Expansion aiming to cover all districts. • Randomized roll-out to the communities within each district. • Direct implementation by MRRD of community development activities that would not have to comply with NSP appraisal requirements, and that would therefore be financed from other sources.

The evaluation team has a hard time finding the risk mitigation strategy developed in the Technical Annex reflected in the results matrix or activity plan of NSP. The table above is a good tool for mitigating risk, but it needs to be included as real activities to be useful.

Has the risk picture changed? If so, in what ways, and what has been the response of management to this?	The security risk has definitely increased since the start of NSP in 2003. In NSP II Technical annex this risk has been planned managed through an "Implementation in High risk areas" strategy. The NSP has adopted this strategy, but the FPs working in high risk areas are still struggling with implementation compared to FPs working in lower risk areas.

c. Poverty Reduction and Sustainable Development

How does the project address poverty? What are the main poverty reduction targets to be achieved?	The program clearly addresses poverty, but not explicitly in the program Objectives where focus is on economic activity, capacity and social services. Therefore it is difficult to deduce poverty reduction targets to be achieved, beyond the indication that x number of people have benefited from the proposed sub-projects.
How far has the project come in achieving its poverty targets?	N/A, see above
How does the project intend to ensure sustainability of the poverty reduction results? Is the sustainability objective realistic?	For Outcome 2, one indicator relates to the completion of sub-projects with an operations and maintenance (O&M) plan in place. For the other Outcomes such sustainability indicators are not in place. For Outcome 2 the evaluation team questions why only 50% of the sub-projects need an O&M?
Is the project likely to have an impact, positive or negative, on the environment? If so, how is this being addressed?	The project has an Environmental and Social Management Framework that should guide its actions. Studies from NSP I has found that communities actually will use environmentally sustainable methods. Safeguards are still in place. The evaluation team was told that an Environmental Impact Assessment can only be carried out during project preparation if the infrastructure is already known, e.g. a road or dam.
How does the project intend to ensure sustainability of the positive environmental results? Is this realistic?	

The program clearly has an important role to play in rural poverty reduction and sustainable development. Its potential is not fulfilled (or at least not measured) due to under-communication of these dimensions. More focus should be on reporting in the Outcome indicators, but the fact remains that reports are still mainly on quantitative indicators like numbers of CDCs established and number of sub-projects approved and implemented.

d. Human Rights and Equality

Which human rights issues are included in the project? What are the specified HR results?	The Project Development Objective (PDO) and the first Outcome relate to the basic human right of participation through, in this case, local governance. The results specified relate to the establishment of CDCs, and their role in community mobilization and development through elections and prioritization on the use of block-grants.
How has gender equity been addressed at Project design? Is there a gender implementation strategy? Does the project specify results to be achieved?	Gender is included explicitly in the NSP results matrix as one indicator in Outcome 1;"At least 4,200 women sub-committees established within CDCs in the culturally sensitive area". In the indicators for the PDO, gender equity is also treated through the following indicator: “Evidence of an increased level of participation of women in the community decision making”. But the evaluation team has not found a gender strategy in use in NSP, though it has planned research to assess women’s participation in the project.
How are the gender equity dimensions being monitored?	FPs are monitoring gender equity in their reports; for example the role of women in decision making in the community. The two indicators mentioned above, for the PDO and Outcome 1 should be reported on, but as far as the evaluation could tell only the number of women CDC (Outcome 1) are being systematically recorded.
How have women, vulnerable groups been heard? What are their roles in project implementation, monitoring?	In many cases, women’s representation has largely been symbolic and they are generally not included in the decision making process. Although their role in selecting subprojects has been minimal, in Kabul Province, there was once CDC women’s subcommittee that had selected subprojects specific to their needs. All accounting remained with the men. Often the subprojects address the needs of the population in general so that a subproject such as irrigation would benefit the women as much as the men. In terms of project monitoring it has been difficult for FPs to recruit female field workers and while there are has been relatively more success in employing female field workers in places such as Bamiyan, generally it has been difficult to hire women. Only 17% of the field staff are women.
What are achievements to date? Are planned results likely to be attained?	The only information NSP receives from the FPs is on number of female CDCs/sub-committees; number of female CDC members trained. Some information is collected from FPs on their experience of involving women in NSP from time to time. While most subprojects selected by the women have been related to income generation such as tailoring classes, carpet weaving, women have also chosen subprojects that have helped reduce their working hours such as drinking water subprojects.
There is not an explicit gender strategy in NSP currently in use but gender dimensions are certainly considered. The results matrix in the Technical Annex include ways in which gender equity development can be measured, but since the NSP results matrices are currently being reviewed the evaluation team could not establish whether these are incorporated in Outputs and activities in the plans. NSP has developed ways to allow both men and women to have a voice and participate in the community decisions through the CDCs and subcommittees.	

e. Capacity Development (CD)

Capacity Building for producing Project Results	
Is there a CD program to ensure that the project delivers results? What is the strategy/plan?	There are nine Technical Advisors (TAs) at senior staff level present in the NSP and part of their TOR is to build capacity. They are either hired through the MSC or directly by NSP. There is no capacity development strategy for NSP, and there are no benchmarks set out for the CD work. There is a lot of capacity building going on, both within the NSP, from NSP TAs to FPs and from FPs to communities. The capacity building of the communities is included in the Technical Annex results framework as part of Immediate Outcomes.

If there is such a strategy, is it linked to any larger sector or national strategy? To those of other projects or activities?	MRRD has established a Community Led Development Department (CLDD) for which there are two social organizers per district. 168 social organizers were recruited two years ago and have received training from FPs. Mature CDCs, assisted by Social Organizers will implement projects/activities funded by bilateral donors.
What are expected Outputs? What has been achieved so far?	There are no clearly defined Outputs as far as the evaluation team can tell. Yet the NSP is a program that works well and the capacity of the program is good as far as the relation to producing program Outputs (expanding). The MRRD is another issue; whether they want and need to capacity build to run a program such as NSP is unclear, but even if they do not, they certainly need to further develop their capacity to oversee and quality assure it and its results.
Will results be sustainable?	The NSP, as a completely externalized program, will probably produce as long as it has funding. NSP staff are considered project staff and not part of the civil service as such; the built capacity will not per se be absorbed into the Ministry. There is no strategy to internalize the program and the sustained effects of it into the MRRD, however the establishment of the CLDD and Social Organizers is a step in the right direction in trying to phase out FP support to mature CDCs. But it is not obvious that it Is preferable to hire a large number of civil servants to work as community mobilizers when GoA can have access to NGOs which can be employed as needed. A special decree was signed by President Karzai allowing USD 60,000 to go through CDCs to implement MRRD projects such as their rural water supply and sanitation project.
General Capacity Development	
Does the project have a general CD program? What are the objectives and expected results?	There are two levels of CD beyond the NSP's "internal CD"; (i) the NSP conducting some CD of the Facilitating Partners, and (ii) the FPs facilitating and capacitating the communities and CDCs.
How does the CD strategy link with other strategies, other projects, other plans?	The CD activities form a central part of the NSP and its proposed Outcomes. The evaluation was not able to identify any real benchmarks towards which one can monitor the capacity development of CDCs.
What has been achieved so far?	It is difficult to assess what has been achieved so far since there are no real benchmarks (nor objectives) for capacity building efforts. The program has assisted in election of more than 20,000 CDCs, gender equity is addressed and so capacity development could clearly be argued. On the project and financial management side much less is known yet the measuring and recording of such developments is extremely important. There is evidence at community level that that substantial capacity has been built there: communities formulate community development plans (CDPs), procure material, carry out works, and keep accounts, but whether this will continue beyond the facilitation is difficult to assess.
Will results be sustainable?	Again difficult to asses since there is little knowledge about results, but the follow up and continued support to CDCs will be important for sustainability; the question is who should do that, and should it be formally planned already now so that a system was in place when/ if the NSP is ended?
Capacity development for project results is slightly disappointing. There is institutional capacity being developed but all NSP staff are consultants. General CD, though there is no strategy, is working towards developing the capacity of CDCs successfully with some of the CDCs already mobilizing funding outside of NSP. The MRRD, while possibly not wanting to run a program like NSP, should be focusing more on the oversight and QA capacities while such a large program is running since the potential for learning is large.	

f. Conflict sensitivity

How is the project expected to contribute to conflict reduction? How is this reflected in the project design?	A key dimension of the Program Objective is conflict reduction or resolution. Some informants claim CDCs are the most important instrument for local stabilization: with credible CDCs the insurgency was not getting much traction. Some FPs are conducting trainings on conflict sensitivity, but it is the impact of the NSP at the macro level that may be the most important. Regional equity in resource allocations is important because perceptions matter. USD 200 per household is such an equitable measure – all are being treated the same, if in fact this rule is followed.

How is the conflict picture being monitored? How is project conflict impact being monitored?	An Engagement strategy is being put in place for implementation in high risk areas – this involves different procurement methods, a different operation manual, and conducting training at the district level. NSP are also setting aside money for FPs in such areas so that there is timely disbursement of block grants.
What are conflict impacts so far? How do they compare with original expectations?	NSP will be conducting a study to see the relationship between community mobilization and peace building.
Conflict sensitivity across the board is key to implementing the program. With the objective of reaching all rural areas, NSP must be especially conscious of how it is perceived in rural areas, since CDCs are important for addressing conflicts locally, and this capacity needs to be in place not just for the duration of the program but also in the future.	

g. Budget

Has the total budget changed since start-up? If so, when, and by how much?	The NSP has become a continued program, beyond what was originally envisaged. The budget has thereby grown to almost USD 1 billion by 2010 (see budget outline in Part A)
Have there been any re-allocations between budget lines /project elements?	The different budget lines in the program have been kept more or less at the same percentage of the overall budget.
Has the budget overall been realistic? If not, what were the reasons?	NSP has grown as fast as its budget has allowed it to. The administration part of the budget is relatively high for a development program. The budget, with its present regulations might give incentives for slow delivery.

h. Financial Management, Procurement and Corruption

Does the project have good financial planning, budgeting, and accounting systems in place? Is project staff competent in these fields?	The financial management of NSP has been outsourced to a Management Supervision Consultancy (Maxwell Stamp). The evaluation was impressed by the size, turn-over and relative flexibility of the financial system of NSP. The staff of the administration and financial department was positively described by the MSC. – MRRD staff seem to have a lot of capacity when it comes to administration and to a certain degree management.
Do other funders use different systems, standards? Is this affecting financial management?	NSP uses the standards for reporting required by its different donors, but the financial management is standardized and not affected by reporting requirements. The financial system of the NSP can produce different reports to different systems, but it still is an extra burden when bilateral donors demand special reports, such as Denmark did for its bilateral funding.
Are accounts audited? Annually? By external auditor? Have they revealed problems?	NSP is audited by the GoA through the Auditor General's office. FPs are monitored by NSP but FPs conduct their own external audits and these are then shared with NSP. For such a large program, where FPs get 20-30% of total budgets, external audits by the NSP on the FPs would be more reassuring. There was an evaluation of FPs done by Altai Consulting and another assessment is just being contracted
How is procurement handled? How does management monitor procurement issues?	There are standard guidelines for procurement, under government legislation and WB guidelines, and the Finance and QA departments in NSP are responsible for verifying the use of these systems.
Does the project have any anti-corruption measures or policies in place? What are they? How are they being monitored? How can they be strengthened?	There are no specific anti-corruption measures or policies in place, but the program and its management are very conscious about these issues and address them daily. This may not be good enough, and the evaluation team would have liked to see a pragmatic system in place.
Have any cases of funds abuse been detected? If so, what was the follow up?	The NSP seems to be on top of this. Some cases of embezzlement and fraud have been detected, but NSP has dealt with these. NSP trains FPs to detect such cases, but some FPs have been found wanting in terms of fraudulent activities from time to time. It is difficult to assess whether the small amounts lost to fraud/ funds abuse means that people and systems within NSP are so much better than the rest of the country, or whether the systems are weak and not detecting.

Part 3: Performance Assessment

a. Project Relevance:

The NSP is directly aligned to the draft ANDS, as part of Sector Six, and this makes it a relevant program in the larger picture. There is currently really no alternative to the NSP for delivering the kinds of services that the NSP is funding at the village level. In addition, some other line ministries have begun working through CDCs for their community development projects, so NSP is clearly a priority for the government in terms of the establishment and capacity building of the CDCs and its national coverage. In addition the program is important in that it exposes the rural population of Afghanistan to the importance of governance, at local level, while potentially reducing poverty and addressing gender equity.

b. Project Effectiveness:

The NSP is growing more or less according to plan, but there is a large assumption in the national coverage presently being based on what can turn out to be a smaller rural population than what is actually true (because no national census is conducted as of yet). This also goes for the real amount of villages (and the definition of what is a village) and even the real and agreed district borders. This challenges the levels of funding needed to "complete" the national coverage and equity, one of the main objectives when the program was initiated. Whether it is actually achieving its performance (Impact) Objective and Outcomes is more difficult to assess because of the limited measuring that has been conducted at this level and the relatively unclear final Objective (both statement and real).

The NSP remains an external project to the MRRD, where all NSP staff are consultants, either international or national. The NSP budget is part of the MRRD budget, however, and as such the program is supervised by the Ministry.

The MRRD has established the Community Led Development Directorate (CLDD), with in principle two Social Organizers staff for each district. But the CLDD only deals with mature CDCs once they have completed their block grants. Although social organizers receive CD training from the FPs, the CLDD operates more as a parallel structure to NSP (i.e. they work with CDCs that are already established and that have exhausted their block grants) unlike the Ministry of Public Works (MPW) whose civil servants work directly with the NRAP consultants on project implementation. There should be a strategy where MRRD civil servants are brought onto the NSP to work with, for example, their financial management department, communications, monitoring and evaluation department etc.

c. Project Efficiency:

The NSP is growing according to the original expansion and growth milestones. There are challenges in relation to the actual disbursements and facilitation of the block grants (approximately 50% of the CDCs established have so far implemented the block grant), but almost all the CDCs established have had sub-projects approved.

The NSP operations manual was revised in December 2007 so that now, CDCs will receive 90% of their block grant up front.

The main efficiency issue now is the administration and facilitation costs. The average overhead to FPs costs about 25% of the NSP budget, and NSP administration another 7-8%. One issue that has been raised is if the FP contracts could be more performance based so that the overall CDC block grant cycle can be reduced. Today the FPs get a set sum per year. While the sum goes down each year, some actors feel the scheme does not provide strong enough incentives to accelerate delivery.

While the efficiency concern is a legitimate one, the question is "efficiency for what"? The problem is that the two objectives for the CDCs may require quite different timelines. If the CDC's main objective is to be a local contracting party for infrastructure investments, the timeline can probably be shortened. If instead the concern is the strengthening of local governance, introducing and maintaining democratically elected councils that will also promote gender equity, this is a more time demanding process. Bringing clarity to the objectives and thus core responsibilities of the CDCs critical both for assessing efficiency, but even more for assessing NSP effectiveness: are the CDCs doing the right things (infrastructure deliverables versus enhanced local governance and empowerment) versus doing the things right – the efficiency concern.

A particular concern for the NSP as a program that is to reach all rural communities is the security problem in some provinces. A strategy for working in high-risk areas was presented in January 2008 and has been approved by the donors. Rather than having FP staff go directly into high-risk areas, they will work through local NGOs as a subcontractor, or train experienced CDC members in close-by districts as "Community Facilitators". These Community Facilitators will then hold the workshops and help the communities in high-risk areas elect their Committees and develop their CDPs. The elected CDC officials will then come to safer areas, such as the provincial capital, for training by the FP on the "NSP Package": CDC by-laws, NSP accounting, procurement, project management etc.

There is a fixed menu for sub-projects in high risk areas. They have a limit of USD 25,000 "to mitigate for a lack of constant technical support and reduce financial risks". Furthermore, priority is given to sub-projects that do not require site visits to prepare the technical design. If, however, a design is required, a village technician prepares it and then shares it with the FP engineer. – All of these measures mean that the costs of delivering the NSP program will be somewhat higher, so this also needs to be borne in mind when assessing NSP efficiency.

The NSP is evolving according to its plans, but the finding that the number of rural communities may be almost twice as high as stated in the documents, and that there still is uncertainty regarding the actual size of the rural population because there is no recent population census, makes the concern of covering the entire rural population by the NSP a more distant goal. This challenges the levels of funding needed to ensure the national coverage and equity, one of the main objectives when the program was initiated.

When it comes to tracking NSP performance according to efficiency and effectiveness criteria, a key weakness has been that there has not been a solid baseline in place, and also not an agreed-upon set of indicators to monitor, particularly when it comes to the governance dimension. A baseline study is now being carried out with the support from Harvard University. It includes developing indicators for all aspects of CDC activities. While a first review of the NSP was very favorable regarding NSP results (York University 2006), it lacked the more rigorous quantitative conclusions that a large-scale program like NSP should be capable of yielding. The baseline study should therefore assist decision makers regarding what is an extremely important but also expensive program, both in looking at cost-effectiveness issues, but also document tangible short- and medium-term effects of the investments and other CDC activities.

d. Project Impact:

All stakeholders, and this evaluation team, believe that a lot of positive results are being produced as a result of NSP, but the extent and sustainability of the results (poverty reduction, gender distribution impact, strengthened local governance, etc.) is not well documented. The lack of the baseline in particular makes it difficult to assess Impact and Outcomes. This will change when the Harvard study is completed in 2009. The NSP will still have to develop a good Management Information System (MIS) based on the new and improved indicators, and systematically collect the data required on these variables. The MIS should track the entire activity cycle, from initial contacts through to expected Outcome, among other things because the sheer size of the NSP make this a unique program that should be able to generate considerable quantitative information of interest to a wide range of actors.

e. Results Sustainability:

At the national level, the NSP remains a separate project with its budget as an identifiable part of the larger MRRD budget. All of its 500 staff are either national or international consultants. This in part reflects the uncertainty of the actual status of the NSP and the CDCs, as the NSP as such is structured as a temporary body and not an integral part of the MRRD.

For more mature CDCs, FPs have conducted linkage and management capacity workshops, introduced them to donors in the area, and tried to involve CDCs with other line ministry programs. These efforts are to ensure the sustainability of the financial sustainability of the CDC activities. But as noted before, without greater clarity regarding the longer-term objectives and organizational anchoring of the CDC, it becomes difficult to ensure their sustainability, either politically, financially or organizationally.

Infrastructure projects are executed only after receiving permission from the relevant line ministries. If the selected sub-project is a school, the CDC must get the permission of the Ministry of Education and these schools then become the property of the Ministry. So in some sectors the sustainability and maintenance of the infrastructure built will be assured.

f. Project Achievements:

The NSP is very impressive in terms of numbers since to date over 20,000 CDCs have been elected through the Facilitating partners facilitation, covering 17 million rural population.

The NSP has approved over 36,000 projects of which over 18,000 have been completed and more than 17 million labor days have been created by these projects

In terms of coverage the NSP is also impressive with established presence in 346 of 398 districts and 28 provincial centers covering all 34 provinces of the country.

NSP has created a much-needed link between rural Afghanistan and the central authorities, though the strength and value of these links have so far not been documented properly.

g. Project Short-comings:

There are no negative results to report in the program, but it is disappointing that such a large-scale and highly supported program does not have a proper results management system in place. This needs to be corrected, and a good start is the Harvard baseline/ impact assessment now taking place. This need to document results is critical for the longer-term credibility of the program, which has come under attack for being expensive and not delivering quantity on time. Whether this is a fair criticism or not, it can only be met through much more thorough quantitative information along the Efficiency, Effectiveness, Relevance and Sustainability dimensions, and with credible quantitative data.

h. Deviation Analysis:

The willingness of FPs to continue implementing subprojects despite funding delays has been extremely commendable. In many cases, FPs have borrowed funds to ensure CDCs receive funds and subprojects are not adversely affected and ultimately that the communities' trust in the government is not broken. In the most volatile and high risk areas, lack of trust could fragment the CDCs and jeopardize the program.

MRRD's Ministers both current and prior, have been very dynamic and have played strong leadership roles. MRRD is considered the most successful Ministry in terms of generating and spending funds. These two factors have certainly played large roles in the success of NSP and other MRRD led programs.

i. Comparative Analysis:

This is not really applicable since the NSP is a one-of-a-kind program in Afghanistan.

j. Lessons Learned:

The sheer size, outreach and disbursement rate of NSP is very impressive, particularly given the governance and security environment in the country. Its continued outreach will clearly be an issue in a number of the provinces. There is also doubt when it comes to the important assumption of the real size of the rural population of Afghanistan and its number of villages and communities. These numbers needs to be clarified for the real length and cost of the program, and its national coverage, to be estimated. The end result and the status of the CDC also need to be clarified for real sustainability of the potential Impacts to be verified, measured and justified.

The NSP seems to have a well-developed Quality Assurance system, though FP auditing should be tightened, and more active anti-corruption monitoring put in place due to the size and complexity of the program and the amount of money going through it.

The program needs develop a much better Results Framework, though this in large part is dependent on greater clarity on what the Objectives of the CDCs are: local community organization; infrastructure provider; extension of the public sector; or all? At present there is a lack of clear objectives, indicators – especially at Outcome and Impact levels – and therefore an incomplete monitoring system.

Annex E: National Rural Access Program (NRAP)

Part 1: Project Description and Structure

a. Project name: National Rural Access Program, NRAP.

b. Timeframe:

- Technical annex (proposal) date: 26 May 2003
- Proposal approved in the Management Committee (MC):
- Proposal/ Grant signed by MoF (Effectiveness date): 31 March 2003
- First disbursement/ allocation to program/ project:
- Original and Revised end date: 31 March 2008 (undergoing process for requesting extension).

Timeframe from Technical annex (proposal) to effectiveness to implementation (activities)

Year	2002	2003	2004	2005	2006	2007	2008	2009
Strategic Framework	Nat'l Dev Framework	NDF	NDF	NDF	I-ANDS	ANDS	ANDS	
NEEPRA		1. 26 May						
NEEP-1		3. 31 March (revised, reduced 6 June)		3. 28 Nov (increase)	3. increase		5. 31 March (extension possible)	
NERAP						1. 14 Nov (IDA)		

c. Institutional implementation arrangements:

The overall NRAP program is co-owned by two ministries, the Ministry of Rural Rehabilitation and Development (MRRD) and the Ministry of Public Works (MPW), while the program and its sub-components are established as an own organizational entity, the Program Development and Coordination Unit (PDCU). This entity, as well as the program implementation units in the ministries, is supported by the United Nations Office for Project Services (UNOPS) as Implementing Partner (IP), assisting the program with a number of issues ranging from Capacity building to Quality assurance. Most of the staff in the program are consultants, a few international but mainly national, but the MPW has introduced civil servants into the program. The majority of MRRD staff have gone through the PRR process and are now consultants.

The real challenge for ARTF monitoring is that the NRAP program consists of a series of sub-projects with different funding sources, as seen in figure E.1 below. There are therefore differing figures being used regarding what were the originally foreseen target values/ benchmarks for some of the Outputs, depending on the reference material used.

d. Main stakeholders/partners on implementation side:

The main stakeholders on implementation side are the MRRD and MPW and the Implementing Partner, UNOPS.

e. Intended beneficiaries, geographical coverage:

The rural population is the intended beneficiary population.

f. Project Structure: Results Framework or LogFrame:

The table below is from the National Emergency Employment Project for Rural Access (NEEPRA) Technical annex, May 2003, which shows a rudimentary results framework, "Information for Monitoring Project".

Component .	**Objectives**	**Monitoring Indicators (targets)**
Rural Public Works	Create employment	▪ Disbursement: USD 12 million ▪ Person-days employment generated – 2.5 – 3 million
	Build Rural Infrastructure	▪ 5,000 km road cleared ▪ 2,000 km access roads constructed ▪ 50,000 CUM structures constructed/ repaired
	Build implementation capacity	▪ Manuals translated, procedures followed ▪ MPW staff able to handle contract procedures ▪ Bank accounts opened, successful tenders ▪ Contractors registered and monitored

The proposed revised project development objective of 17 December 2006 is to *"enable the rural population to benefit from year-round access to basic services and facilities in the rural areas of Afghanistan covered by the project."*

The proposed outcome indicator of the project will be *(i) improved access of rural communities to basic services & facilities and (ii) increased rural employment.*

The revised key performance indicators are:

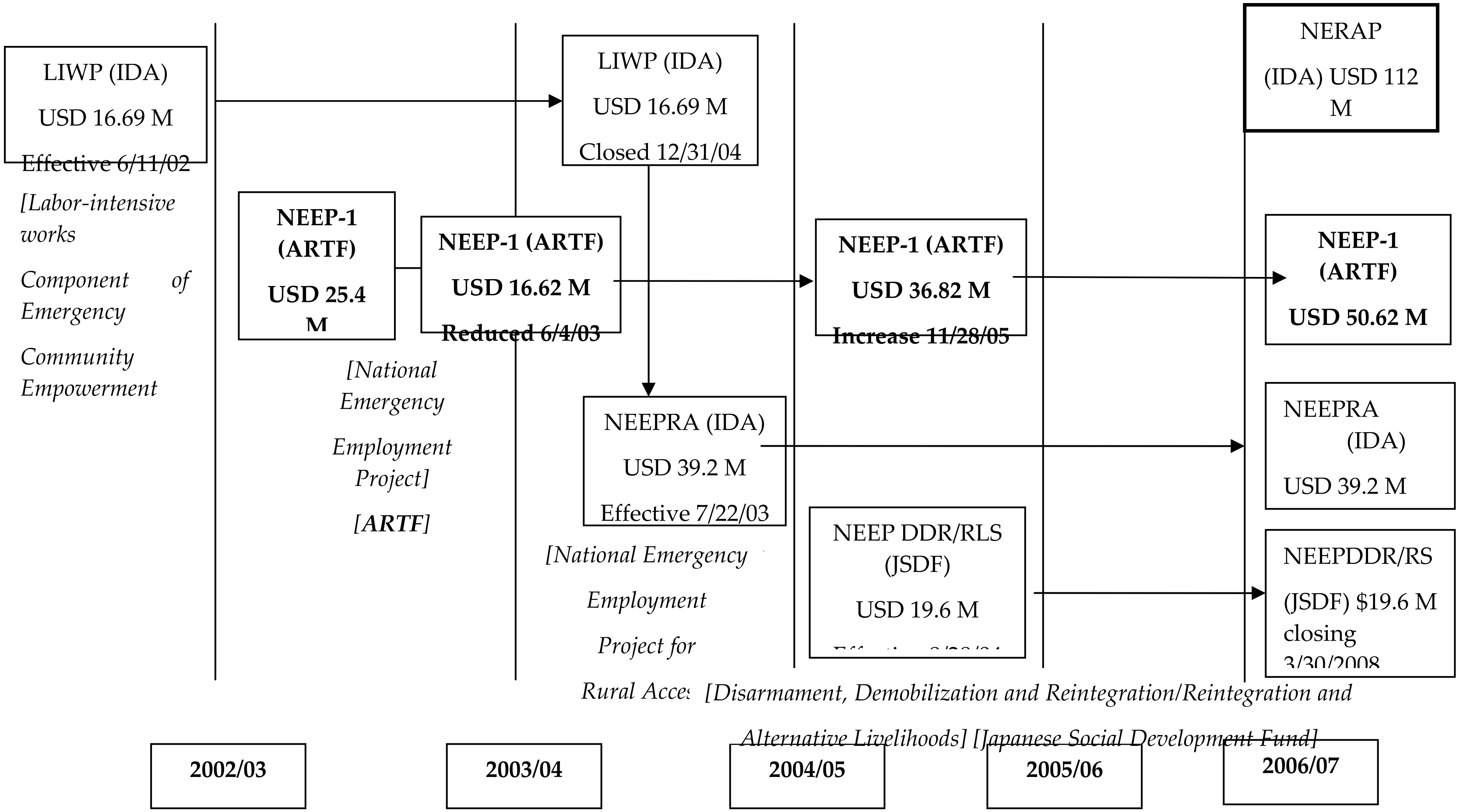
1. *A minimum of 1,400 km of roads rehabilitated*
2. *Minimum 3,000 m of cross-drainage structure, including bridges, rehabilitated*
3. *A minimum of 2.2 million unskilled labor days of employment generated*
4. *Eight provincial airstrips/airfields rehabilitated*
5. *MRRD office building constructed.*

Baseline data were not available at the start-up of the program.

g. Crosscutting themes:

In the original Technical Annex the cross-cutting issues were mentioned, but only to a certain degree dealt with in terms of practical implementation and quality assurance. This is improved in the latest Technical Annex of November 2007.

Figure E.1: Overview and timeline of funding for National Rural Access Program



h. Current performance status:

The program started out as a labor employment program, to provide a social safety net in poor rural areas, but has changed focus to rural infrastructure, in particular roads, done through using local contractors but based largely on labor-intensive technologies. The labor demand component therefore remains important.

As of March 2008 the program covers 33 out of 34 provinces, with funds also allocated to the last one.

According to the presentation to the Donors Meeting March 2008, 2,700 kms of roads have been rehabilitated as against a target value of 2,300 km. 15,000 hectares of irrigated land has been rehabilitated, which is in line with the original target, and about 5.7 million labor days have been created as against a target of 5 million.

The target values given above, however, are much higher than those in the Technical annex quoted in section (c) above. They are also not quite consistent with what has been presented in other documents, where there is reference to 14 airfields being constructed/upgraded as against a target value of eight, and 11 million labor days generated – twice the figure quoted just above – and with 9,800 kms of roads rehabilitated.

The program has adopted a participatory approach to roads planning that is seen to also contribute to the empowerment of local communities and which is described in Part B point 6, "Conflict Sensitivity" below.

i. Project budget and disbursements:

The ARTF funding to date is USD 52.8 million of which USD 51.9 million had been disbursed as of March 2008. That phase of the program was to end March 2008. A new phase with a budget of USD 25 million was expected to come into place, meaning ARTF would be putting nearly USD 78 million in total.

There were disbursement problems to begin with due to cash flow problems in the ARTF when donors deposited their funds late. The transmission of funds from the MoF to MRRD was also slow. These issues seem to have been addressed by now.

Donors have preferenced a total of USD 60.7 million to NRAP, of which just under USD 40 million have been paid in. The unpaid commitment of USD 21 million was from one donor for SY 1386 and linked to particular own-budget issues that donor had to address.

Part 2: Project Planning and Results

a. *Objectives and Results Framework/Performance Review System:*

Are the Objectives clear? Are they understood and agreed to by key stakeholders?	The original Objective (PDO) of the NRAP is relatively clear, although stated as three processes (with Output indicators) rather than a future change in lives of the beneficiaries. All stakeholders agree to the Objective.
Which national strategies or plans does this project link to? How?	NRAP links in with Sector 6, "Agriculture and Rural Development", program 2, *Rural Infrastructure,* in the I-ANDS (and now the draft ANDS), where rural roads are specifically mentioned with the target of 40% of the villages have road connection by the end of 2010.
Is there a Baseline for the project? Is it operational?	There was no baseline established for the project, but the basis for the project was a) little rural employment in the post-war environment and b) very limited road access for the rural population. The new phase of the program known as NERAP will be doing a baseline.
Are Indicators developed for the Objectives? Are they easy to monitor?	There are indicators developed for the Outputs, and these are both measurable and easy to monitor. For Outcomes/ Impact the indicators are over-simplified and neither easy to monitor nor measurable. In NEEP-1 and NEEPRA there are no outcome indicators
Have any changes been made to any of these project elements? If so, what are the changes, and when were they introduced?	An adjustment was made to the “results framework” in 2007 (as seen above). The project was also formally restructured in 2007.
Is project management using this Results Framework to manage the project? What has been the experience?	The project management is largely managing according to the input/ Output dimensions and not really looking at Outcome/ Impact. One reason for this is the lack of a baseline. This is expected to change with a baseline survey being done with support from Harvard that is to be ready in 2009.

b. *Risk*

Was a risk assessment done as part of planning? Was it realistic?	A risk assessment was part of the project preparation of NEEPRA, cf. p. 25 of the Technical Annex.
Was a risk management strategy put in place? Is it being used?	The team has not seen a risk management strategy, but the senior management work according to an agreed set of risks and how to mitigate them.
Has the risk picture changed? How, and what has been the response of management to this?	Security has deteriorated. Management has used a low key approach to working in the provinces and worked closely with the communities.

c. *Poverty Reduction and Sustainable Development*

How does the project address poverty? What are the main poverty reduction targets to be achieved?	The project addresses poverty partly through the creation of days of manual work contracted, but the long-term effect is through better road connection. Targeting has been done through allocation of resources throughout the country on a funding cycle basis; NRAP has tried to optimize labor based appropriate technology and to use local labor contracts. A minimum of 60% of project budget goes to local labor. In addition, the creation of local labor days within the private contractors is monitored. When private contractors are used, 40% of the budget goes to paying local labor.
How far has the project come in achieving its poverty targets?	It is difficult to say anything about this until data from Impact assessments have been produced. No such data have so far been provided to the team.
How does the project intend to ensure sustainability of the poverty reduction results? Is the sustainability objective realistic?	Sustainability in itself is an issue that has not been properly addressed in the program. Especially maintenance of the road investments will challenge the sustainability of the impact.
Is the project likely to have an impact, positive or negative, on the environment? If so, how is this being addressed?	The program has an Environmental and Social Management Framework, and is conscious about the potential negative impacts it may have on the environment. Whether it is being actively addressed in the daily work is difficult to assess based on the information gathered. No Environmental

	Assessment was conducted at this is not required for rural roads.
How does the project intend to ensure sustainability of the positive environmental results? Is this realistic?	Whether the project will have positive environmental impacts is difficult to assess, but the fact that it is conscious about it merits mentioning. Sustainability in itself is an issues (as mentioned above), and this will also be valid for potential environmental impacts.

d. *Human Rights and Equality*

Which human rights issues are included in the project? What are the specified HR results?	There are no specific human rights issues included in the project.
How has gender equity been addressed at Project design? Is there a gender implementation strategy? Does the project specify results to be achieved?	There are no explicit gender objectives included in the project design.
How are the gender equity dimensions being monitored?	n.a.
How have women, vulnerable groups been heard? What are their roles in project implementation, monitoring?	Where possible, NRAP have employed women for gabion weaving. The limitation of hiring women is that they must be able to work in the home. Both at MRRD and MPW there are female civil servants and program employees, but this is not related to any formal requirements by the program such as quotas or similar efforts.
What are achievements to date? Are planned results likely to be attained?	As there are no objectives, there are no clear achievements.
There has been very little development in terms of gender – there is no strategy and with the social restrictions placed on women working outside the home it is difficult for NRAP to have a balanced gender dimension. The potential for hiring women varies by region, however, and where possible the program attempts to involve women. The ARTF/ WB are currently conducting a gender assessment for rural access which will inform future programs.	

e. *Capacity Development (CD)*

Capacity Building for producing Project Results	
Is there a CD program to ensure that the project delivers results? What is the strategy/plan?	The ToR for all technical assistance (TA) staff assigned to the program and the ToR for UNOPS includes components on CD, but these are not broken down into clear and measurable targets and rather relate to "training of national counterparts" as such. It seems, though, that national program staff have improved their skills due to their involvement in and employment on the program. There is no formal strategy (written), but both national and international consultants state that CD objectives are on their agenda, but actual implementation seems left to the individual consultants to carry out.
If there is such a strategy, is it linked to any larger sector or national strategy? To those of other projects or activities?	While there is no strategy for general CD there have been and are strategic efforts to develop sub-contractors and the process of contracting, and for this there are benchmarks: level of contract, amount of time taken to implement the project, and quality.
What are expected Outputs? What has been achieved so far?	When NRAP initially started, finding qualified local private contractors was almost impossible. NRAP have since built capacity supporting local contractors by providing materials, teaching them to schedule their work better, and ensuring quality controls. NRAP is also building the capacity of college students in Kabul and Kandahar. 6 monthly internships are offered to 50 students a year where on a rotational basis; the students will do lab, office and field work.
Will results be sustainable?	Capacity built at the community level should be sustainable provided there is sustainable funding for maintenance of the infrastructure.
General Capacity Development	
Does the project have a general CD program? What are the objectives and expected results?	No official CD strategy available. CD activities undertaken are only to ensure/improve program implementation and not related to any wider CD for the public sector as such.

How does the CD strategy link with other strategies, other projects, other plans?	UNOPS has tried to implement level I works through communities and CDCs, though CDCs are not legally established entities as UNOPS understands it, so formally they believe they cannot sign agreements with CDCs. All funds have to be received by a CDC representative contractor who would then receive capacity building from UNOPS. Note: the NSP considers CDCs legal entities. In NSP, CDCs sign agreements with facilitating partners and MRRD. They are authorized to open bank accounts.
What has been achieved so far?	The expected Outputs are related to the ability of program staff to implement the program. This is mostly related to the technical ability to produce results, and less to the ability to manage and administer such a program
Will results be sustainable?	The MRRD is developing some internal capacity to manage and oversee such programs, while MPW are developing direct technical (engineering) skills through the program. MPW has more civil servants than MRRD, and some of these receive a “training stipend” as a top up from the program. UNOPS encouraged MRRD to bring in house employees into the program but to date, all NRAP national employees are consultants. It is unclear to the evaluation team whether this is a conscious strategy from MRRD, viewing NRAP as a relatively short-term project and not long-term core tasks for the Ministry. If that is the case, then it is perhaps a good strategy. If, on the other hand, NRAP activities should continue to be a co-owned program in the longer term, MRRD is missing a big opportunity to build internal and institutional capacity.
Capacity development appears to cover individual as well as some institutional development. NRAP appears to be working to develop capacity beyond just making sure assigned tasks can be carried out.	

f. Conflict sensitivity

How is the project expected to contribute to conflict reduction? How is this reflected in the project design?	NRAP follows a participatory exercise for prioritizing projects. The approach is to initially contact the head of the local *shura* and ensure the program’s staff security while working in the communities. They also maintain a low profile. The equity in resources distribution is an issue, but documents and interviews point to a fair distribution. There is funding for all provinces, and NRAP is carrying out activities in all but one.
How is the conflict picture being monitored? How is project conflict impact being monitored?	Quarterly reports have some mention of conflict picture but do not monitor the impact of the program. The program monitors conflict or the changing security situation very carefully because it is vital for the security of project staff. NERAP has done a “security ranking” of roads, but does not monitor the projects impact on the conflict picture.
What are conflict impacts so far? How do they compare with original expectations?	Difficult to say anything regarding impacts, though informants claim the program reduces local conflicts in several ways, The conflict reduction impact is better links to society at large, greater mobility for those who want this, stronger feeling of connectedness and involvement through the planning process, seeing visible impact of GoA efforts/resources**.**
As with all the other community based projects, NRAP’s first line of approach is through the local decision making bodies and once an understanding is reached, only then does the IP begin implementing the program.	

g. Budget

Has the total budget changed since start-up? If so, when, and by how much?	The NRAP is a large program, with several funding sources since its inception, of which ARTF has been contributing only a part – see Figure E.1.
Has there been any re-allocations between budget lines /project elements?	Operating costs have increased incrementally as the program has introduced more staff. Operational costs have also increased relative to construction costs due to the increase in salaries. One major issue NRAP has faced is the inflated market rate of technical personnel as a result of large private construction funds (where UNOPS pays USD 300 for an engineer, USAID/ Louis Berger may pay USD 3,000)
Has the budget overall been realistic? If not, what were the	The budget has been realistic when one looks at the Outputs for each dollar, and when looking at the outreach and coverage.

reasons?	

h. Financial Management, Procurement and Corruption

Does the project have good financial planning, budgeting, and accounting systems in place? Is project staff competent in these fields?	NRAP believes MRRD has a good finance and management system (even if during NERAP preparation the WB assessed that fiduciary capacity in MRRD is insufficient to implement the program without assistance of an IP) while MPW does not, though they have stronger technical capacity. MRRD Deputy Minister noted that MRRD is using a financial accounting package that they developed in-house and that USAID and DFID have asked to purchase it from them. This package can also generate project reports.
Do other funders use different systems, standards? Is this affecting financial management?	The entire program, regardless of funders, uses public reporting and management systems based on WB procedures. Given the post conflict context, certain WB regulations are relaxed such as with respect to procurement due to the post-conflict status. For Financial management there is no relaxation of requirements.
Are accounts audited? Annually? By external auditor? Have they revealed problems?	NRAP is audited by the Government. The local contractors are not financially audited. Although the informants said there are benchmarks for building capacity with the contracting parties as part of the contracts and to build a national, viable sector, there is no written strategy as to what these are and timelines.
How is procurement handled? How does management monitor procurement issues?	NRAP use WB procurement policies.
Does the project have any anti-corruption measures or policies in place? What are they? How are they being monitored? How can they be strengthened?	There is a formal anticorruption policy, plus anti-fraud and corruption clauses in UNOPS contract, but the challenge is that senior personnel did not seem aware of it and certainly did not use it on a regular basis.
Have any cases of funds abuse been detected? If so, what was the follow up?	Funds abuse, though not mentioned in the documents, is present. No documented numbers were presented to the evaluation team but unofficial numbers of as much as 20% were mentioned by different stakeholders. The level where the abuse occurs seems to differ, but the most usual place is in the contracting.

Part 3: Performance Assessment

a. Project Relevance:

The program was one of the National Priority Programs initiated in 2003. It is now a part of the ANDS Sector Six, Program 2 *Rural Infrastructure* priorities. The ARTF part of the budget helps provide the funding necessary for the larger program to move at the speed anticipated and planned.

b. Project Effectiveness:

In terms of Outputs the program is reaching its Objectives. Whether it reaches its Outcomes is still too early to assess since a proper Impact assessment (or even performance monitoring towards Outcomes) has not been conducted. For the first part of the program (NEEPRA 1) there were no Outcomes developed and so in the first results matrix there weren't any Outcome/ Impact statements, but even the ones developed in the latest Technical Annex (2007) are less than clear on what are planned Outcomes. The new Technical Annex produced have both Outcome statements and indicators to follow, but they are most often process statements difficult measure as sustained positive change, and this makes the whole monitoring/ evaluation beyond Outputs difficult.

National capacity is being built to a certain degree, as much as national staff is important in implementing the program. But the program is still handled largely as a project outside the MRRD and MPW, and very few program staff are civil servants. It is still being run as a program, with consultants, national and international, implementing and quality assuring the inputs and Outputs.

If the Ministries want more internal capacity from this large program there must be more civil servants directly involved - more so in MRRD than MPW as the latter has government staff directly engaged.

c. Project Efficiency:

It is difficult to assess the efficiency of the project since the data that are used as the intended target values seem to have been modified several times. This is undoubtedly due to the shifting priorities (away from a labor creation and social safety net focus to a more road infrastructure building program built on contracting private entrepreneurs). A simple issue like whether or not irrigation is in fact a key component in the program varies from one source to another.

Overall, however, the NRAP program is seen as a well managed and cost-efficient program that is building local entrepreneurship by setting out smalls-scale contracts that local firms can compete for and actually manage. The labor intensity of the works is also seen as appropriate to the circumstances in the country and in the rural areas in particular.

d. Project Impact:

The evaluation team finds it difficult to say anything regarding Impact since no monitoring/ assessment has been done at this level. A Results matrix is not well developed or used in the program beyond the technical annex, and this remains rudimentary. A baseline study cum impact assessment is currently being conducted with support from a research team from Harvard. This will give the program data for future results monitoring.

A key weakness is that while the ANDS has set a target of having 40% of villages reached by permanent road access by the end of 2010, NRAP reporting does not refer to this at all. What would have been useful is to know how many villages have received year-round road connections, what percentage this is of the expected total, and how fast progress has been compared with expectations. This would be a more relevant indicator than the number of kilometers of road rehabilitated, which is the key one being reported on now.

e. Results Sustainability:

There needs to be more collaboration/coordination with other activities that are being conducted in rural areas through other line ministries.

In terms of sustainability of the infrastructure, there needs to be a clearly defined maintenance strategy. One way of perhaps mitigating this problem is by aligning the infrastructure with other projects/programs. Stand alone infrastructure is not practical or sustainable but coupled with something that is required by the communities such as irrigation, would help create more appropriate projects with better impacts. It was difficult for the evaluation team to get clear information on who actually owns the roads, since formal ownership is perhaps key to long term sustainability. It was also difficult to get a clear understanding on how the maintenance would be financed beyond the program. One of the challenges with program/project Outputs and Outcomes is thus who owns and finances for sustainability. The capacity for maintenance is also not clear since most construction is now done on direct contracting to the program.

f. Project Achievements:

The ability of the program and the implementing partner to build the capacity of the local private contractors, in terms of technical competence and to a certain degree project implementation capacity, has been impressive, but this work needs to continue since UNOPS noted that there is no capacity with local contractors in terms of financial accountability.

The outreach and coverage of the program is impressive, and the fact that the program involves communities in the planning has undoubtedly improved local mobilization and ownership, but these kinds of community organizational gains are easily lost without continued assistance for some years.

g. Project Short-comings:

There has been much capacity built through the IPs of local private contractors and the program staff. In the case of MRRD, the program is entirely outsourced to national and international consultants. There is no institutional capacity being built so there is essentially no sustainability of the program in terms of human capacity. MPW has civil servants working alongside the NRAP program consultants so there is at least some technical capacity being built. With no clear plan regarding NRAP program staff will be absorbed into MRRD and/or MPW over time, or even if that is what should happen, it seems there must be more strategic thought given to placing civil servants and improving their capacity in the programs instead of outsourcing these responsibilities entirely as in the case of MRRD. However, the fact that capacity is being built, albeit outside the Ministries, is a significant result in itself. One of the main challenges will be that trained staff tend to leave the public sector for better-paid jobs with private firms and civil society organizations, local or international.

h. Deviation Analysis:

For NRAP, as with other community based programs, security has been a huge factor explaining implementation delays. However, NRAP's approach of contacting local community leaders before sending any engineers to a community for the first time, has reduced the problem. The project has also tried as far as possible to use local contractors. These approaches have been critical for the success of the program, leading to a minimum of disruption.

Delays in the release of funds continue to be problematic. On one occasion, funding was an entire year late and the IP had to borrow from another source. The lack of multiyear funding has made it difficult to implement projects effectively. The new NERAP project, however, has a three-year funding profile that is to create more predictability. The main change that should be done is donors due payment of its pledges, which would in turn help ARTF pay quicker. A more expedient process through the MoF will also help, and ARTF is now taking steps to facilitate this.

i. Comparative Analysis:

The services provided are not easily comparable to other programs, but the tight link with and involvement of communities is fairly similar to the NSP. The NRAP is structurally a much simpler program, however, as it only involves decisions on road prioritization and task contracting with local entrepreneurs. The program does seem well structured, however, and able to attain its objectives.

j. Lessons Learned:

The lessons learned has been addressed in the above paragraphs, and the main ones relate to the way the program is:

- ***Planned*** in a positive and participatory way;
- ***Executed/ implemented*** in a way that seems to strengthen and assist community development and ownership;
- ***Managed*** in a way that ensures good implementation (through external consultants) but that probably does not ensure institutional capacity within the involved Ministries.
- ***Monitored and evaluated***, in a way that ensures good data at Input, Activity and Output level but that has not focused enough on the important Outcome and Impact data needed to justify the money spent in the longer term. The reporting on Inputs (resources), Activities and Outputs (daily, weekly and monthly for internal purposes and quarterly for external) is good, but could include indicators/ dimensions of quality (of tarmac for example) to make it even better. For the social data very little is being gathered and this needs to change.

The program should continue to secure good implementation and quality assurance, but focus more on capacity building of the institutions that need to "own" the program's results beyond its implementation schedule. This means that although it may be a good solution to "externalise" the implementation of NRAP as a program, the Ministries involved cannot ignore the longer term responsibility of the results and need to develop the capacity they need to accept this responsibility.

The program also needs to work on the results framework and its data gathering, to secure a timely and realistic reporting on results beyond the Output level

Annex F: Microfinance Investment Support Facility (MISFA)

Part 1: Project Description and Structure

a. Project name: Expanding Microfinance Outreach and Improving sustainability (MISFA)/ T7702-AF.

b. Timeframe:

- Technical annex (new phase proposal) date: 7 November 2007
- Proposal approved in the Management Committee:
- Proposal/ Grant signed by Ministry of Finance (MoF) (Effectiveness date):
- First disbursement/ allocation to program/ project:
- Original and Revised end date:
- Timeframe from Technical annex (proposal) to effectiveness to implementation (activities):

MISFA started up in 2003, but no Technical Annex was produced at that time and so it has proved difficult to follow a timeline for the program.

c. Institutional implementation arrangements:

MISFA was set up as a program under the Ministry of Rural Rehabilitation and Development (MRRD), but is now changing so it is responsible to the Ministry of Finance (MoF) for legislative and financial matters and MRRD for program quality assurance. MISFA has changed status from a MRRD project to a limited liability company under the sole ownership of the Ministry of Finance.

d. Main stakeholders/partners on implementation side:

The main stakeholders on the implementation side are MRRD, MoF and MISFA itself as an organization.

e. Intended beneficiaries, geographical coverage:

The primary target group for this project is the microfinance service provider organizations that MISFA supports, while the impact of a strong microfinance sector with significant outreach that provides a wide range of financial services will be to improve the livelihoods of poor households being served by the sector. The poor households are the ultimate beneficiary. To date the geographic coverage is 23 provinces,

f. Project Structure: Results Framework or LogFrame:

The results matrix developed for the 2007 (extension) Technical Annex, copied below:

PDO	Project Outcome Indicators	Use of Project Outcome Information
The objective of the project is to achieve operational sustainability for most microfinance service providers and help them scale up outreach of financial services to meet the needs and demands of many poor Afghans, especially women.	1. Increased sustainability of microfinance service providers that have begun the process of diversifying their funding sources to include commercial sources in addition to funds provided by the Government of Afghanistan (GoA)and donors (85% of the loan portfolio outstanding accounted for by MFPs with operational self sufficiency ratio, OSS>100%). 2. Microfinance service providers are registered as Afghan companies and operating under relevant Afghan laws and supervision. (100%of MFPs registered as separate legal entities to provide microfinance services under Afghan law – as corporations, firms, banks, or any other recognized legal form for financial service providers at the end of the project). 3. Scaled up outreach to many more poor people in most provinces. (Number of active clients of MFPs increased to 625,000; 65% of active clients who are women; growth of outstanding loan portfolio to more than 250% of the baseline portfolio; services being provided in more than 30 provinces by the end of the project).	Baseline data based on specific indicators will be established as will end of project targets. Regular reporting of these indicators will allow for progress to be measured and adjustments to be made to the project so that outcomes are achieved, or the reasons for not achieving outcomes are known and lessons can be learned.
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Use of Intermediate Outcome Monitoring**
Operationally sustainable microfinance service providers increasingly capable of sourcing funds (commercial debt, international funds, savings) from the market.	1.. Number / %of MFPs with an operational self sufficiency ratio (OSS) of more than 100% that do not require any more grant subsidies for operational deficits. 2. Number / % of MFPs with PAR 30 (portfolio at risk greater than 30 days) of less than 5%. 3. Amount of funds on the balance sheets of MFPs from sources other than MISFA and their own equity. 4. Number / % of MFPs with a capital adequacy ratio above 12%.	All of these indicators will be collected and reported twice a year from the first year of the project. A review of progress will be made twice a year to allow for an assessment of progress and for any necessary adjustments to be made to in project strategy.
Microfinance service providers are Afghan corporations / organizations with Afghans on their boards and in top management positions.	1. Number / % of MFPs with Afghan board members / directors in addition to international experts and owner representatives. 2. % of middle and top management positions held by Afghans.	
Outreach of financial service provision to poor people by microfinance service providers has doubled (number of active clients) and reached most provinces.	1. Number of active clients doubled within three years. 2. Number of provinces in which MFPs are providing services.	

g. Crosscutting themes: In the newly developed Technical Annex for the expansion of the MISFA program the cross-cutting issues have been treated. Prior to this a Technical Annex was not really guiding the program, but MISFA has developed internal procedures to deal with many of the cross-cutting issues though perhaps not as structured as one could have wanted, and mostly through the direct initiatives of senior management.

e. Current performance status: Actual Outputs, summary narrative status by key stakeholders: project manager, beneficiaries, and supervision mission reports.

By late 2007 the sector had the following characteristics:

- 15 functioning Micro Finance Partners (MFP): 13 NGOs, one bank, one credit union promoter.
- Presence in 22 of 34 provinces.
- 325,000 active clients (70% women); USD 72 million outstanding portfolio.
- USD 170 million total (cumulative) disbursements to clients.
- USD 220 average loan size – ranging from USD 92 to USD 1039 per MFP.
- 4% portfolio at risk at 30 days.
- 3 operationally sustainable MFPs. Combined, all 15 MFPs cover 89% of their operational costs from income earned on their outstanding loan portfolios.

In SY 1385 (March 2006-March 2007) the microfinance sector added 10,000 active clients per month and loan disbursements averaged USD 7 million per month.

i. Project budget and disbursements:

To date MISFA has received and disbursed, or committed to disburse, USD 136 million, of which USD 119 million has been provided through the ARTF. The World Bank managed Japan Social Development Fund initially provided USD 5 million to begin the process. The remaining funds have been provided by bilateral donors, the three largest contributors being CIDA, DFID and USAID. In TA T7702-AF, IDA will be providing US$30 million in loans.

MISFA has experienced problems related to disbursement which slowed down the MFPs' own disbursements in critical periods. Since MISFA is building institutions that are to become financially sustainable, this has caused problems. The problem has been related to three issues in the "delivery chain": (i) donors were late in paying in commitments made; (ii) the ARTF itself has prioritized the recurrent cost window and thus had to manage the cash flow shortfalls to ensure the budget support; and (iii) the MoF was slow in forwarding funds once they were available. All parties have been looking at steps to address these short-comings through more timely disbursement of money from donors to the ARTF and the ARTF preparing documents for the MoF to sign at or directly after meetings in the Management Committee where disbursements are approved.

Part 2: Project Planning and Results

a. Objectives and Results Framework/Performance Review System:

Are the Objectives clear? Are they understood and agreed to by key stakeholders?	Objectives are not unambiguous. The donors and thereby the ARTF facility have a "poverty reduction" focus as shown in the Results framework. MISFA management has a "business bottom line" agenda: financial sustainability and financial, administrative "Afghanization" are key to building a financial system that can serve the Afghan population that does not have access to the formal banking sector, but is not necessarily among the poorer strata.
Which national strategies or plans does this project link to? How?	I-ANDS Sector Six, Program 4 is *Rural Financial Services* where MISFA is explicitly mentioned as the key vehicle to reach 800,000 households with access to financial services with focus on rural Afghanistan especially women and the poor. This will be achieved through rural credit and the establishment of MFPs which is stated as MISFA's objective in the TA T7702-AF. MISFA also contributes to "strengthening and diversifying legal rural livelihoods" (National Priority Two of the Afghan National Drug Control Strategy 2006) through the MFPs that provide loans to the rural population.
Is there a Baseline for the project? Is it operational?	There was no baseline when MISFA started up, which was as unnecessary since there was virtually no microfinance at that time. The project undertook a Baseline study/ impact assessment February-May 2007 to establish social performance indicators. The study interviewed over 1,000 households in five provinces, covering clients of ten of MISFA's 12 partner MFPs. The sample size and study design were both aimed at statistical robustness so as to allow extrapolation of findings to 350,000 MISFA clients.
Are Indicators developed for the Objectives? Are they easy to monitor?	In the new Technical Annex, indicators have been developed, and they are of good quality according to accepted parameters. They should be easy to monitor, provided that a system for gathering data is set up. The indicators are better in terms of measuring MFP development and sustainability than measuring poverty reduction.
Have any changes been made to any of these project elements?	No formal changes have been made.
Is project management using this Results Framework to manage the project?	The management of MISFA is using the results framework to a certain degree, but only as far as Activities and Outputs are concerned. The poverty reduction focus of MISFA has been under-communicated.

b. Risk

Was a risk assessment done as part of planning? Was it realistic?	According to the interviewees risk is assessed continuously. The risk picture has changed a lot since the start of the program, but there does not seem to have been a complete risk assessment conducted in the planning phase.
Was a risk management strategy put in place? Is it being used?	The MISFA has a risk management strategy though not written in the management. This relates mainly to security and slow disbursement.
Has the risk picture changed? If so, in what ways, and what has been the response of management to this?	Security has deteriorated and this has affected the outreach of the program. MFPs can only lend to those borrowers who are accessible for the purpose of collecting loan repayments on a regular basis. MISFA and partners work closely with the local communities and local officials to try and mitigate risk as much as possible.

c. Poverty Reduction and Sustainable Development

How does the project address poverty? What are the main poverty reduction targets to be achieved?	The program is well placed for addressing poverty, but there were no clear poverty reduction objectives and indicators developed at start-up. MISFA management believes there are limits to microfinance's poverty impact and has focused on building a financial sector for the population that is not eligible for loans from conventional banks. This is presently changing through a more systematic approach to measuring positive social effects of the program, mainly building on the baseline study of 2007.

How far has the project come in achieving its poverty targets?	Not a lot is known due to the fact that this is not systematically being measured as part of the program reporting, performance and learning requirements. The baseline study of 2007 looked at social conditions and changes and came up with some main findings in the areas of i) creation of economic opportunities, ii) social empowerment, iii) coverage across regions and ethnic groups (and gender) and iv) trends in economic well-being.
How does the project intend to ensure sustainability of the poverty reduction results? Is the sustainability objective realistic?	The baseline study could be the tool the program needs to attempt to ensure sustainability, but the indicators themselves will not achieve this. The program will need to change its focus from only measuring (and thereby focusing its activities towards) viability of financial institutions to reducing poverty across the dimensions found in the baseline study.
Is the project likely to have an impact, positive or negative, on the environment? If so, how is this being addressed?	Article 14 of the Environmental Assessment Law (Article 14) relates to larger projects, not those financed by micro loans. The 'subprojects' under this microfinance project will have only minor environmental impacts.
How does the project intend to ensure sustainability of the positive environmental results? Is this realistic?	Basic environmental requirements are included in MFP contracts with MISFA which are agreed upon by MISFA and the WB. Institutionally, to help with the sustainability of positive environmental results and procedures there is as an Environmental focus person who will implement the Environmental Assessment (EA) framework, at the MFP level, an individual will be responsible for environmental protection and MISFA will ensure that MFPs have access to professional EA advice. Implementing Environmental safeguards is complicated and will take time for MFPs to institutionalize.

d. Human Rights and Equality

Which human rights issues are included in the project? What are the specified HR results?	The program has not addressed human rights issues as such, but there is a clear distributional philosophy at play in the planning and execution. MISFA has attempted to reach nationwide coverage, but still have a ways to go, mostly due to the security situation. MISFA is also trying to reach across the different ethnic groups, but there are few data to verify the success of this.
How has gender equity been addressed at Project design? Is there a gender implementation strategy? Does the project specify results to be achieved?	Though MISFA does not have a gender policy, 70% of its borrowers are women. MISFA also has a commitment to reporting on gender to the WB through IDA. A gender assessment was carried out.
How are the gender equity dimensions being monitored?	% of women recipients of micro-credit % of women employees in MISFA, MIFs, at both senior and staff level 3 of the MFPs cater to women only. 4 out of 15 of the MFPs are managed by women.
How have women, vulnerable groups been heard? What are their roles in project implementation, monitoring?	Some of the MFPs cater to women only. This has given women a platform to speak about issues. 4 of the 15 Micro Finance Partners are managed by women.
What are achievements to date? Are planned results likely to be attained?	70% of their clients are women and 40% of their clients are in the rural areas. There is no gender strategy but there is a large focus on making MF available to women and encouraging female management of MFPs

e. Capacity Development (CD)

Capacity Building for producing Project Results	
Is there a CD program to ensure that the project delivers results? What is the strategy/plan?	MISFA has a focus on ensuring the sustainability of their MFPs and to this end, they have a CD plan. MFPs that don't have international support receive mentoring from a well-known Bangladeshi MFP.
If there is such a strategy, is it linked to a larger sector strategy? To other projects or activities?	The capacity development work of MISFA is directed to the overall micro-finance sector and thus reaches out to all MFPs, providing assistance such as through the Bangladeshi MFP.
What are expected Outputs? What has been achieved so far?	All MFPs and MISFA are now registered as corporations. MISFA is working to "Afghanize" MFPs: ensure that all transactions are in Afghanis, convert all balance sheets into Afghanis and place Afghan staff in key positions.

Will results be sustainable?	Certainly in terms of financial sustainability of these MFPs are on the right track. Being registered as corporation allows them to source funding from a much wider constituency of donors and external funders.
General Capacity Development	
Does the project have a general CD program? What are the objectives and expected results?	MISFA have trained local auditors to carry out audits of the MFPs
How does the CD strategy link with other strategies, other projects, other plans?	Capacity building (organizational and institutional) have been an integral part of the MISFA, and it has therefore been included in all aspects of planning and execution.
What has been achieved so far?	MFPs that are able to sustain its work is a real possibility in the near future.
Will results be sustainable?	MISFA is well set up to become sustainable within the next 5 years. MISFA has focused heavily on helping MFPs develop themselves with the potential to be sustainable.

f. Conflict sensitivity

How is the project expected to contribute to conflict reduction? How is this reflected in the project design?	MISFA and MFP partners all coordinate with the local Line Agencies, local authorities, and local community *shuras* to help reduce conflict and build a better line of communication. They also try to hire local personnel.
How is the conflict picture being monitored? How is project conflict impact being monitored?	MFPs report on the number of borrowers and historically, there is a 5-7% increase in borrowers. However, January 2008 was the first month when there was not an increase due to the security situation.
What are conflict impacts so far? How do they compare with original expectations?	MISFA partners have had to close down some offices due to the increasing security risks. Over the last 6-9 months, MFPs have had to slow down in certain areas. They are trying to come up with a contingency plan for such situations.

g. Budget

Has the total budget changed since start-up? If so, when, and by how much?	The budget is approved annually and revised according to how much is available from different funding sources.
Has there been any re-allocations between budget lines /project elements?	Within subcategories there has been some reallocation of the budget. MFPs have asked for more money for operating expenses or for Technical assistance. Also MISFA has seen a trend where loans are getting larger and grants are decreasing.
Has the budget overall been realistic? If not, what were the reasons?	The budget granted has allowed MISFA to grow at what seems a satisfactory rate.

h. Financial Management, Procurement and Corruption

Does the project have good financial planning, budgeting, and accounting systems? Is project staff competent in these fields?	The program has good financial systems as far as the evaluation team has been able to assess. The staff seems extremely capable and committed.
Do other funders use different systems, standards? Is this affecting financial management?	MISFA use one accounting system and under national legislation.
Are accounts audited? Annually? By external auditor? Have they revealed problems?	MFPs are audited by external auditors. TORs for these auditors are developed by MISFA. MISFA is audited by the GoA.
How is procurement handled? How does management monitor procurement issues?	The procurement system is aligned with WB standards and should be quality assured regularly.
Does the project have any anti-corruption measures or policies in	In the MFP contracts, the consequences of funds mismanagement are clearly stated. However this does not appear to deter some MFP employees

place? What are they? How are they being monitored? How can they be strengthened?	working in the rural areas. MISFA have always worked in collaboration with the local Administrative Officials. MISFA introduces Admin officials to the MFPs and more recently, Administrative Officials have started screening and vetting any local hires made by MFPs. MISFA also has a policy that no more than USD 10,000 can be kept in the MFPs' office at any time.
Have any cases of funds abuse been detected? If so, what was the follow up?	There has been several case of funds abuse detected. In a recent case, the MFP staff members were put in jail and will be brought to Kabul to be prosecuted.
More than any other community based project, MISFA appears to have identified and dealt with more cases of funds abuse than either NSP or NRAP, but this is in part explained by the fact that microfinance operations involve a lot of cash. MISFA deals with funds abuse quite harshly with MFP staff members being put in jail and brought to Kabul for prosecution. Further, fraud is not unusual in microfinance in other countries.	

Part 3: Performance Assessment

a. Project Relevance:

The MISFA is a priority in the ANDS Sector Six, Program 4 *Rural Financial Services.* This is to promote livelihoods and economic growth through the expansion of quality financial services by developing rural credit and micro finance institutions. However, about 60% of the borrowers are in fact in urban areas.

b. Project Effectiveness:

With all of the MFPs now registered as companies, the link that any of them had with international parent organizations is cut so that they are all "Afghanized". With currently four out of the 15 MFPs managed by Afghans, MISFA has put in place efforts to build national capacity to deliver program objectives. MISFA itself has now only two international staff whereas they started with seven internationals.

c. Project Efficiency:

Compared to all realistic benchmarks the MISFA is performing very well. There are no obvious areas for improved cost-efficiency, especially since the major threat to MFP profitability is probably the security problem. The MFPs are already largely operating in the safer regions, and more in urban areas where the insurgency is also less of a problem.

d. Project Impact:

The program does not really have a performance monitoring system that systematically tracks results over and beyond Outputs. It has only now developed a results matrix where Outcomes and Impact is included, and the planned achievements at this level are still un-ambitious in terms of poverty reduction and social indicators. In the results matrix (see above) the program have two PDOs: (i) the operational sustainability of MFPs, and (ii) "meet the needs and demands of many poor Afghans". What MISFA is in fact addressing is the first part of the PDO. The second one is rather poorly specified; going to the indicators they only have a numerical outreach but not social or economic or geographic (rural) dimensions. It will focus more on this in the future and has a plan for implementing such a focus, but it is important that donors and other stakeholders continue to push for this to continue to justify public spending.

e. Results Sustainability:

MISFA, both as a limited liability company and as a larger microfinance program, is well on its way to becoming sustainable. With all of the MFPs turned into corporations, this provides for a much wider pool of financing than just donor grants. In addition both MISFA and the MFPs will become more and more self-reliant through its larger lending base and the high repayment rates. This in itself will open space for sustainability beyond donor support. MISFA has therefore already begun looking at an exit strategy as far as donor funding is concerned.

f. Project Achievements:

The institutionalization of the MFPs is happening through the formal registry as private corporations, and the "Afghanisation" of the MFPs and MISFA itself through ensuring that the balance sheets and all financial transactions are now carried out in Afghanis, and with capacity building that is allowing the organizations to rapidly become independent of external technical assistance. This is ensuring local ownership and embeddedness in the local economy and society, and thus administrative and management sustainability. The other dimension is financial sustainability, which is being attained through the very high repayment rates the MFPs are achieving, and with an interest rate spread that allows them to finance their own operations and even expand them. MISFA and its MFPs are thus moving rapidly in the right direction of self-financing and sustainable microfinance organizations.

One should also mention the findings from the baseline study which shows progress also on the social dimensions (Greeley and Chaturvedi 2007):

- More than 80% of the loans were for setting up businesses or expanding them;
- These economic initiatives have provided self-employment to 414 individuals in the sample of about 1,000 households. Considering that this is a representative sample, employment created by all MISFA clients at the same of the survey is estimated to be around 65,000 (the study had an error margin of 6%);
- 64% female clients and 74% of male clients generated employment for themselves;
- 47% of urban clients generated employment opportunities for others. At 39%, this figure was lower for rural clients.
- 44% women clients reported absolute control over their money as against 18% non-client women;
- 80% women clients reported ‘improved attitude’ of their husbands and other relatives, both male and female;
- 91% of women clients interviewed reported enjoying good relationship with other group members;
- 47% of the female clients reported that they could rely on their group members for social advice.
- The program is spread across 23 provinces and covers all major ethnic groups;
- 70% of the program beneficiaries are women;
- Overcoming an initial urban bias, the program reports 40% rural clients.
- 72% of the clients reported an improvement in their economic situation as against 51% non-clients;
- 46% of the client households reported savings as against 31% non-client households.

g. Project Short-comings:

From other microfinance programs it is known that microfinance can indeed impact socio-economic welfare at the household level, reduce vulnerability and empower the poor. MISFA's achievements along these dimensions are unclear but seem unsatisfactory. Using the same baseline data as in point 6 one can argue that MISFA, through its focus on sustainable institutionalization of a lower-level banking sector, has not reached its potential for poverty reduction and indeed conflict mitigation and instead developed a program focusing on the "mid-level" poor.

h. Deviation Analysis:

Trying to place as few international staff in MISFA and by trying to “Afghanize” MFPs in terms of human capacity in management is commendable and probably accounts for an important share of the outreach success and widespread acceptance of microfinance in Afghanistan.

i. Comparative Analysis:

All MFPs in Afghanistan receive funding through MISFA. There are no other projects that can be compared with MISFA in Afghanistan. But the program itself can be compared to other microfinance programs, and according to its own data, MISFA is the fastest growing microfinance program in the world and its MFPs are achieving financial sustainability faster than any other microfinance program in the world. The "Afghanisation" of MISFA and the MFPs has reduced the program's reliance on external technical assistance also at a rate that is very impressive, at MISFA itself from seven to two foreign staff in the space of only four years. Overall the financial, technical and administrative achievements of MISFA as a program are very impressive.

j. Lessons Learned:

The development of a sustainable finance sector below the formal banking sector and the ability to reach a large number of beneficiaries in a relatively short time are both huge achievements. The MFPs have been able to include women in management in a good way, and the Afghanisation of both MFPs and MISFA are positive developments. So is the fact that women play such a large part in administering the loans with about 70% of the borrowers being women.

The big question is if the intention with the program from the side of the donors really was to set up what has become a commercially very successful program. The Evaluation team believes that the donors thought they were funding a classic poverty reduction program through microfinance lending in the Grameen Bank mould. This would be more in line with the massive grants funding that has been provided. While most of the borrowers are not wealthy, it seems that a considerable share of the borrowers in both urban and rural areas are not among those social groups that poverty-focused MFPs would normally target. And this more mid-level social strata of the clientele is clearly one of the reasons the MFPs have been able to reach financial sustainability in such a short period of time.

Given the socio-economic situation of Afghanistan, building up this financial services sector is clearly of great importance: the small-scale rural and urban entrepreneurs who undoubtedly will be critical to the more broad-based growth the country needs over the coming period require this kind of small-scale financial services. But since this is largely a commercial market it is not obvious that donor grants should be focused so much on this.

Microfinance remains a powerful tool for poverty reduction, though it may not be able to reach financial sustainability so easily since the outreach and the capacity development costs tend to be higher. Studies show that the public goods dimensions of gender and poverty targeted microfinance are substantial, including issues like empowerment, organizational development, and that it is largely these kinds of costs that can justify continued donor support.

The Evaluation team would therefore encourage the ARTF stakeholders to assess the possibilities for MISFA to support two "windows": one for commercial small-scale lending based on purely business considerations, and a second more traditional microfinance for poverty reduction, where certain cost components related to the public goods and risk-reduction aspects of poverty reduction can justify continued donor grants funding.

Annex G: Civil Service Capacity Building (CSCB)

Part 1: Project Description and Structure

***a. Project name*: Civil Service Capacity Building (CSCB),** project no. TF 053940.

The CSCB project is a USD 13 million effort, fully financed through the ARTF, designed to attract qualified Afghans to the civil service at policy and senior managerial levels, temporarily but with a view to absorption, for gap-filling and capacity-building.

The CSCB is the product of a merger in mid-2005 the Afghan Expatriates Program (AEP) and the Lateral Entry Program (LEP). They originated separately in 2002 and 2004, respectively, with different chronologies, objectives, management arrangements, oversight systems. AEP was under implementation while LEP was a pipeline program. The merger brought them under the management of a new implementing entity, the Capacity Development Secretariat (CDS), under the Independent Administrative Reform and Civil Service Commission (IARCSC). The CDS was operational as of mid-2006.

The AEP originally aimed to place some 60 highly qualified expatriate Afghans in top policy-making and senior advisory positions in ministries. A USD 10 million ARTF grant agreement was signed in 2002. In 2003, a first USD 5 million tranche was released, but the effective launch of AEP was delayed while implementation arrangements were being discussed. The effective date is held to be March 2004, when a presidential decree approved the program. In September 2004, the first AEP contract was given. Many of the 97 expatriate Afghans recruited under the AEP arrangement came to serve as high-level policy advisers.

The LEP was planned to be in two stages. A first phase was to secure 100 placements with a budget of USD 3 million. In a possible second phase, subject to a separate ARTF grant, up to 1,500 positions were to be funded. Originally conceived in 2004 as a supplement to the AEP, it aimed to recruit qualified Afghans locally and regionally from civil society, international organizations and the private sector for managerial positions in the civil service. The first recruitment under the LEP component took place in August 2005.

***b. Timeframe*:**

1. Technical annex (proposal) date: 02 May 2005
2. Proposal approved in the Management Committee: 02 May 2005
3. Proposal/Grant signed by MoF (Effectiveness date): 15 Jun 2005
4. First disbursement/allocation to project: 12 Sept 2005
5. Original end date (not revised): 28 Feb 2010
6. Timeframe from Tech annex (proposal) to effectiveness to implementation (activities)

The CSCB was proposed to the ARTF Management Committee in December 2004. It was approved and launched over a few months in mid-2005.

As of March 2008, a new *Management Capacity Program (*MCP*)* will replace the CSCB. No new AEP or LEP recruitments are taking place, but a number of existing contract holders are finishing their contracts. Future recruitments will take place under the new MCP. This program was proposed and approved in February 2007, and became effective in October 2007. The first batch of around 50 MCP positions were planned advertised late March 2008.

Based on experiences from LEP and AEP, the MCP program intends to recruit only key line management positions. It hopes to expand from the centre to sub-national administration within a three-year timeframe. The program aims to recruit 240 persons for civil service in ministries and other government agencies for up to three years.

The results framework of the MCP project is as follows:

Brief description	The project will provide support to line ministries to undertake common management and executive functions to enhanced standard through: recruiting, contracting an supervising staff appointed on contract to key management and executive positions, and monitoring their performance.
Project Development Objective	To achieve sustained improved performance in the management capacity of key departments dealing with any or all of the common functions including financial management, human resources management, policy and regulatory design, and administration. This should ultimately result in improved utilization and cost effectiveness of budgetary resources and faster and better development results on the ground.
Performance Indicators	***Measured improvements in:*** Timeliness of performing the functions (service standards); Quality of the performance of functions (errors, conformity of performance with law and regulations, reported satisfaction of "clients" and supervisors); Financial performance (respect for and rates of execution of budgets, standards of accountability and audit results); Timeliness and accuracy of reporting to senior levels of government.

c. ***Institutional implementation arrangements***:

The executive responsibility for the CSCB lies with the IARCSC, with day-to-day implementation delegated to the *CDS*. The beneficiaries have been 20-odd line ministries and agencies. A beneficiary institution would request certain positions to be filled under the project by way of an application with a justification for assistance to the CDS. Beneficiary institutions would proceed to employ directly, instruct, monitor performance and evaluate the personnel, and report to the CDS. In parallel, CDS would ostensibly monitor and supervise each recruit and the program on a periodic basis. Remuneration of recruited personnel is effectuated through the Ministry of Finance (MoF) in accordance with standard procedures for payments of civil servants. Each month the MoF files a request with ARTF for the reimbursement of eligible expenses. The World Bank's Task Team Leader (TTL) provides programmatic advice and certain controls with regard to recruitments and procurement. Oversight of the CSCB project is the responsibility of the *PAR (Public Administration Reform) Steering Committee*, a body comprising representatives of the President's Office, IARCSC and the Ministry of Finance.

At the start of 2005, AEP was an ongoing emergency program. Day-to-day management was the responsibility of the IARCSC through an *AEP Executive Committee* made up of five AEPs. The executive committee was assisted in the implementation by the *International Organization of Migration (IOM)*, which was single-source contracted in July 2004 as an implementation support consultant for recruitments, remuneration and contract management. While IOM provided implementation support, is also managed disbursements, till its contract ended early 2007. Oversight of the AEP program was the responsibility of a Ministerial Advisory Committee .

LEP was envisaged with a management structure similar to that of the AEP, with day-to-day management tasked to an *LEP Executive Committee* and oversight provided by the MAC. Unlike AEP, there was no international contractor as all LEPs were contracted locally. Disbursements in the LEP component were always channeled through the MoF.

d. Main stakeholders/partners on implementation side:

The actual beneficiary institutions are responsible for the identification and proposal for AEP/LEP posts and candidates, and once approved recruit and manage them. The IARCSC/CDS has general operational responsibilities, while MoF handles payments through the normal civil service payment procedures. The World Bank TTL provides policy and procedural oversight on behalf of the ARTF, as it is fully funded by the ARTF.

e. Intended beneficiaries, geographical coverage:

The project aims to support the *executive branch* of the State. The vast majority of beneficiaries have been 20-odd government ministries and agencies, as shown in the table:

No	Ministry / Agency	AEP		Gender		LEP		Gender	
		Number	Active	M	F	Number	Active	M	F
1	Office of the President	13	0	0		10	4	4	0
2	Office of Administrative Affairs					14	6	6	0
3	IARCSC	14	3	2	1	10	8	6	2
4	Ministry of Finance	8	1	1		9	4	4	0
5	Ministry of Foreign Affairs	5	0	0	0	0	0		
6	Ministry of Transport and Civil Aviation	1	0	0		9	3	2	1
7	Ministry of Public Works	1	0	0		0	0		
8	Ministry of Mines and Industries	1	0	0		4	0	0	0
9	Ministry of Energy and Water	2	0	0		13	3	2	1
10	MRRD	4	0	0					
11	Ministry of Urban Development and Housing	7	0	0		1	0	0	0
12	Kabul Municipality	2	0	0					
13	Ministry of Agriculture and Livestock	12	2	2		5	1	1	0
14	Ministry of Education	7	0	0		6	0	0	0
15	Ministry of Higher Education	5	0	0		8	6	6	0
16	Ministry of Public Health	5	0	0		6	0	0	0
17	Ministry of Communication	2	0	0		11	0	0	0
18	Ministry of Commerce	3	0	0		3	1	1	0
19	Ministry of Information and Culture	3	1	1		9	2	2	0
20	Ministry of Economic					1	1	1	0
21	Office of Refugees and Returnees Affairs	1	0	0		0	0	0	0
22	Ministry of Interior					2	1	1	0
23	Ministry of Border and Tribal Affairs					1	0		
24	Office of Attorney General					3	1	1	0
25	Science Academy of Afghanistan	1	0	0		1	1	1	0
26	Ministry of Youth					2	0	0	0
27	Anti-corruption & Bribery Commission					1	0	0	0
28	General Directorate of Geodesy and Cartography					1	1	1	

29	Office of senior Advisor to the President					2	1	1	0
Total		97	7	6	1	132	**44**	40	4

Aside from the ministerial civil service, there has also been some limited support to the Office of the President, the Anti-Corruption and Bribery Commission, the Science Academy of Afghanistan, the Kabul Municipality and the Attorney-General's office. The beneficiary institutions are all located in Kabul. Recruits were from Kabul and a number of provinces.

***f. Project Structure: Results Framework or LogFrame*:**

Neither CSCB nor AEP or LEP had a LogFrame, detailed Results Framework, or a matrix with specified goals, purpose/outcomes, outputs, or benchmarks. Instead, the LEP project management has followed sequenced procurement plans from the outset in 2005. Similarly, a procurement plan for AEP was introduced when the CDS took over the implementation from IOM in 2007.

The procurement plans include information on beneficiaries (ministry/agency), positions, number of positions, contract duration, contract amount, contingency amount and other details based on which the implementation and monitoring is done. These plans are continuously updated, in dialogue with the Government. There is no fixed list of positions to be filled during the project lifespan.

g. Crosscutting themes:

The project aims at *capacity development* in the civil service, first by strengthening the executive branch of the state during a critical time (gap filling), and secondly by assisting in the development of policies, procedures, structures, service delivery, leading to improved efficiency and effectiveness.

The projects have no gender policies or targets, and there is no documentation that AEP/LEP staff have contributed to any changes regarding gender policies and practices. Very few women have been recruited to serve under either program. Officials note that recruitment is to be merit-based, implying this is the reason not more women have been recruited, though this argument hardly stands up to scrutiny. The evaluation team did not get an answer to whether there had been any attempt to recruit women or if there was a gender bias in the recruitment (many of the AEPs in particular were evidently known individuals to the ministries recruiting).

The AEP/LEP/CSCB have no explicit *environmental* objectives.

With regard to *good governance,* the project aims to contribute to overall *anti-corruption* by enhancing government policies and practices in transparent, merit-based recruitment processes and payroll systems. There is, however, no documentation that shows that the AEP/LEP staff have contributed to this in any structured way (individual staff may have contributed in the particular posts they filled), and there is no programmatic objective along this dimension for either program and hence no results reporting along this dimension.

h. Current performance status:

The CSCB has two main performance parameters: the *number of persons* recruited under AEP and LEP; and *capacity developed* in host institutions.

AEP had as a goal to recruit 60 expatriate, though this target was later increased, and the AEP has since 1 September 2004 recruited 97 persons.

The LEP was originally to recruit 100 LEPs to be based in Kabul while for a second phase it was to recruit up to 1,500 experts. However, with the launch of the new MCP project, the second phase target, with some changes, will be covered under the MCP project. Since 9 August 2005 the LEP program has recruited 132 staff.

With regard to *capacity development* in host institutions, there are no quantitative or qualitative indicators defined or in use. Documents and interviews note that individuals have made significant contributions in their units. But it is unclear if this was due to the structural conditions provided by the program (TOR, prioritization by the AEP/LEP on posts that were likely to have capacity development impact) or more a function of the individual or the specific situation or task that was to be performed. How widespread the capacity development impacts were can therefore not be established, but it is clear that in the first phase in particular the key concern was to get qualified individuals into important policy and managerial positions in order for the public sector to perform vital tasks. Longer-term capacity development outputs and outcomes can therefore not be documented.

i. Project budget and disbursements

USD 13 million, all from the ARTF. Of this, USD 11.6 million had been disbursed as of March 2008, leaving about 10% of the funds still undisbursed, to fund the few remaining on-going contracts that are shortly coming to an end.

In 2002, a USD 10 million ARTF grant agreement was signed for the AEP project. In 2003, a first USD 5 million tranche was released. A second USD 5 million tranche was released in February 2006. No major problems have been reported by the stakeholders with regard to funding or disbursements.

In practical terms, ARTF refunds the MoF for expenditures – salaries and placement costs for AEP and LEP contract holders. The MoF forwards project expenditures for refund by the ARTF in accordance with monthly procurement plans from the CDS. In the very beginning, there was a minor cash flow problem that resulted in a few contracts being entered into for a six-month duration only, but this was temporary and the affected contract holders were later extended to serve full terms.

There have been some instances where project management has asked the World Bank to clear expenditures faster. Bank regulations require staff to clear reimbursements within ten days after receipt of requests, and it appears that most clearances have been given within seven days, which seems very reasonable. Delays in reimbursements have usually been caused by incomplete paperwork on the side of project management.

Preferencing has not been an issue. There have been no preferences reported for either the AEP or LEP components, or for specific positions to be filled within either component.

Part 2: Project Planning and Results

a. *Objectives and Results Framework/Performance Review System:*

Are the Objectives clear? Are they understood and agreed to by key stakeholders?	The stakeholders explain that the project objectives are clearly set out in the project proposal and its Results Framework. The objectives are twofold: to hire skilled Afghans for the civil service, and to build capacity in the beneficiary institutions. Although there was no results framework or specified/measurable objectives on the CD side, the objectives are considered clear, understood and agreed to by all the key stakeholders, and they have not changed.
Which national strategies or plans does this project link to? How?	Prior to January 2006, the project was anchored in the applicable National Priority Plan (NPP).Since January 2006, with the adoption of the *Interim Afghanistan National Development Strategy (I-ANDS)*, the ANDS, JCMB reports, Sector Strategies and ministerial strategies have provided the policy framework for the project.
Is there a Baseline for the project? Is it operational?	The baseline was 0 – no AEPs or LEPs before the projects started recruitments in 2004 and 2005.
Are Indicators developed for the Objectives? Are they easy to monitor?	Informants express that the indicators are straightforward: the hiring of expertise for 20-odd ministries and agencies, easy to monitor. This, however, is only an Inputs indicator, and says nothing about Outputs
Have any changes been made to any of these project elements? If so, what are the changes, and when were they introduced?	No significant changes in the national strategies or project objectives have taken place. Since 2006, the beneficiary line ministries are monitoring and evaluating the individual AEP/LEP contract holders and reporting on their performance to the CDS. Before that time, monitoring and evaluation sorted under the CDS alone.
Is project management using this Results Framework to manage the project? What has been the experience?	Reportedly, the project management uses the Results Framework when requesting ARTF funding through the project for recruitments. If there is doubt about eligibility under the project, the project management will consult counterparts in the WB proactively, in order to clarify whether a planned activity (e.g. a particular recruitment) will be refundable under the project.

b. *Risk*

Was a risk assessment done as part of planning? Was it realistic?	The stakeholders explain that a tailor-made WB risk-assessment matrix is part of the CSCB project proposal, and that it has proved relatively realistic. An unforeseen risk was the logistical problems in administering the AEP component, which imports a lot of expatriate and therefore involves a lot of airfares and similar disbursement with assorted paperwork – similar to what UNDP and similar agencies deal with under directly executed projects.
Was a risk management strategy put in place? Is it being used?	Reportedly, a risk management strategy is part of the ARTF risk assessment matrix in the project proposal. Mitigating measures are identified in the matrix. The non-extension of IOM as implementation support contractor under the AEP program is a concrete example of risk management in practice.
Has the risk picture changed? If so, in what ways, and what has been the response of management to this?	Stakeholders report that the security situation has deteriorated beyond expectations. For example, the WB offices in Kabul got blown up in Nov 2007. Responding to this situation, the WB and project management have held roundtables with all AEP and LEP personnel to discuss concern, and the discussions resulted in an across-the-board 5% salary increase.

c. *Poverty Reduction and Sustainable Development*

How does the project address poverty? What are main poverty reduction targets to be achieved?	These projects have no direct poverty reduction impact but the strengthening of central institutions is expected to contribute to the overall ability of GoA to reduce poverty.
How far has the project come in achieving its poverty targets?	CSCB does not address poverty reduction directly but the upcoming MCP project, which will succeed the present project shortly, is to have a clearer capacity development directed towards poverty reduction.

How does the project intend to ensure sustainability of the poverty reduction results? Is the sustainability objective realistic?	Stakeholders hope that many on LEP contracts, who were recruited in-country in the first place, will remain in the civil service and continue to build capacity there. Many of them seem likely to leave a legacy. With regard to AEP advisers, most of them return to their lives abroad. Their legacy will first and foremost be in leaving behind a contribution to good policies and systems. However, some of them are considered to have done exceptionally well and may remain in Afghanistan, in high positions.
Is the project likely to have an impact, positive or negative, on the environment?	Not applicable.

d. *Human Rights and Equality*

Which human rights issues are included in the project? What are the specified HR results?	The project has funded a few persons working on human rights and certain relevant pieces of legislation. Other than that, this dimension is not relevant to this project.
How has gender equity been addressed at Project design? Is there a gender implementation strategy? Does the project specify results to be achieved?	There is no gender strategy or benchmarks. . There are few female applicants and few contract holders. One AEP contract holder has gender policy across the civil service as part of her terms of reference.
How are the gender equity dimensions being monitored?	n.a.
How have women, vulnerable groups been heard? What are their roles in project implementation, monitoring?	Stakeholders claim that the project has a broad spread of ethnic groups represented in AEP and LEP, but ethnicity is not registered so there is no statistics in the area.
What are achievements to date? Are planned results likely to be attained?	Stakeholders consider the question largely irrelevant to this particular project.

e. *Capacity Development (CD)*

Capacity Building for producing Project Results	
Is there a CD program to ensure that the project delivers results? What is the strategy/plan?	Stakeholders stress that the project aims to build capacity across the government, as laid out in the project proposal/technical annex. There is, however, no formal CD strategy or plan for the CSCB as such
If there is such a strategy, is it linked to any larger sector or national strategy? To those of other projects or activities?	The CSCB is clearly linked with the larger CD concerns of GoA, as is clear in the project proposal document. There are weekly Technical Working Group meetings, ANDS Sector Working Groups, and a (now less active) “Five Common Functions Group”.
What are expected Outputs? What has been achieved so far?	The output is held in general terms. Stakeholders highlight that ministries have moved forward, and that a platform for further reform has been put in place. The efforts have contributed to a reversal of brain drain. It has also demonstrated the merit of merit-based recruitment. An output of the LEP component is that systems are better and staff more competent in areas where interventions were made. As for AEP, the outputs would be overall improvement in policy-making at a ministerial level. Equally important is that the project has demonstrated a better alternative to donor top-up financing.
Will results be sustainable?	The stakeholders express a careful “yes”. As a concrete example the financial management routines in the CDS, which implements the project, have been designed almost exclusively by CDS itself; and this system is increasingly serving as a model in various government ministries. Officials characterize the project management staff in CDS as “spot on” with regard to competency in this financial management system.
General Capacity Development	
Does the project have a general CD program? What are the	Stakeholders stress that the project contracts in and builds capacity. Reference is made to the project strategy. The project has, in their opinion, contributed to

objectives and expected results?	make the civil service more efficient and effective than before.
How does the CD strategy link with other strategies, other projects, other plans?	Stakeholders make reference to the national strategic frameworks in the I-ANDS. The project complements and coordinates with other efforts in the area of public sector CD, notably the UNDP-implemented CAP project, the European Commission's PAEPAEU project and the upcoming MCP project.
What has been achieved so far?	97 AEP placements and 132 LEP placements in 22 ministries and agencies, leaving the legacies outlined above.
Will results be sustainable?	Stakeholders express a cautious "yes", but stress capacity development takes time and that there is some way to go. They emphasize that there is now a reservoir of skilled Afghan nationals available; systems, manuals, gender policies, financial management building blocks are in place; and the lessons learned has led up to a successor project (MCP) which will aim to consolidate the gains and expand into the provinces. Concerns are voiced with regard to the sustainability of AEP-contracted staff, partly because many of them are adviser to ministers who come and go and do not necessarily leave a legacy in the ministry; and partly because they are more likely to leave the country instead of remaining and serving as role models over a longer period of time.

f. Conflict sensitivity

How is the project expected to contribute to conflict reduction? How is this reflected in the project design?	Informants stress that the project is not a conflict-reducing instrument. They opine, however, that it should contribute to better government services (e.g. in areas like education and agriculture) and thereby help boost the legitimacy of the state.
How is the conflict picture being monitored?	The question is considered largely irrelevant to this project.
What are conflict impacts so far?	The question is considered largely irrelevant to this project.

g. Budget

Has the total budget changed since start-up? If so, when, and by how much?	The budget has not changed from the original USD 13 million, and no additional grants.
Has there been any re-allocations between budget lines /project elements?	In the last quarter of 2007 there was a relatively small re-allocation, perhaps USD 200.000 - USD 250.000 from the AEP to the LEP component. There have been no other re-allocations.
Has the budget overall been realistic? If not, what were the reasons?	Stakeholders say that there is great need to provide funding for the civil service. But given the scope of the project, which was reasonable at the time it was designed, the resources have been broadly realistic.

h. Financial Management, Procurement and Corruption

Does the project have good financial planning, budgeting, and accounting systems in place? Is project staff competent in these fields?	According to WB officials, the financial management routines used by CDS are "very good" and project management staff competent in the use of the system. General IARCSC financial staff are less well trained than their colleagues in CDS. But the WB has a separate IDA-funded project for that. There is also an IDA project for Ministry of Finance staff.
Do other funders use different systems, standards? Is this affecting financial management?	This is not an issue since the project is fully financed through ARTF. However, CDS also oversees UNDP and EC projects that use own financial systems, and CDS staff note that using three different systems cause challenges.
Are accounts audited? Annually? By external auditor? Have they revealed problems?	Project accounts are audited annually. External auditors are used. Audits have revealed some issues, but no grave problems. In one instance, tax rates had been slightly incorrectly calculated, at one time it was remarked that the project has not mandated the rental for a house though the house actually serves as the CDS office and not a residence, etc. Audits are not forensic.
How is procurement handled? How does management monitor procurement issues?	All procurement in the project follows WB guidelines. WB does quality control, and most procurement pertains to recruitment of individuals. The procurement plan is characterized by WB officials as very elaborate.

Does the project have any anti-corruption measures or policies in place? What are they? How are they being monitored? How can they be strengthened?	Stakeholders emphasize transparent, competitive, merit-based appointments. WB officials see all documents, check the paper trails and must approve all appointments and expenditures.
Have any cases of funds abuse been detected? If so, what was the follow up?	Stakeholders say that no instances of abuse have been revealed by the auditors. WB officials refer to a single incident of regular *theft*: in 2007 the cashier stole the project's cash box containing the petty cash of the project, about USD2,600, and fled to Pakistan. Project routines were reportedly changed as a result of the episode. The case is under criminal investigation.

Part 3: Performance Assessment

The twofold objective of the AEP/LEP/CSCB project has throughout the reporting period remained (1) *gap-filling* and (2) improved *capacity* in ministries. This is clear from the project documents and understood by all stakeholders.

The first objective, of providing gap-fillers, is an *input* concept, where the expected *result* was a better functioning public administration – but specifying "improved public administration" further in the context of these two programs is obviously difficult. These projects were planned and implemented in a difficult environment, and no logical framework (“logframe”) or similar approach was used for planning, implementation or oversight purposes. The projects are therefore difficult to assess in terms of actual results.

Changes to project designs have not always been well documented, there have been several changes in implementation arrangements, and a considerable turnover of staff, which has affected institutional memory regarding the history and achievements of the projects. There is little in the way of written documentation on actual results, and in particular there is no aggregate picture of CD outputs produced.

a. Project Relevance:

The projects have always been aligned to government priorities in the field of public sector capacity development.

As of January 2006 the main planning instrument is the I-ANDS, where one of the three pillars is Good Governance, and where Public Administration Reform (PAR) is a key program. This project is anchored in the GoA's PAR strategy, and is supporting the Government's Priority Reform and Restructuring (PRR) process, and is aligned to the larger effort to concentrate CD on the five common functions identified as priority in public administration: financial management; procurement; policy-making; project management; and human resources management. Efforts have similarly been aligned to national priorities preceding I-ANDS, and the upcoming MCP project will be anchored in the new ANDS.

The fact that these activities were funded by the ARTF provided the further value-added that the support was channeled through the National Budget, so funding was handled by the MoF. Furthermore, the World Bank exercises a certain quality assurance and control function that is appreciated by the donor community, since the PAR is considered an important program by all donors.

The CD activities have provided a better approach to attracting skills to the public sector than donor top-ups, since the latter tend to be *ad hoc*, not transparent to the government, donor driven and thus creating possible loyalty conflicts, and much less predictable and sustainable.

The main stakeholders spoken with in Government expressed their satisfaction with the relevance of AEP, LEP and CSCB.

b. Project Effectiveness:

AEP/LEP/CSCB have funded some 230 advisers and managers to 20-odd state institutions over a three-and-a-half year period. As an emergency measure, this has undoubtedly helped improve the public administration during a difficult transition period. Effectiveness in terms of CD is not documented, however, and cannot be assessed.

Although a general CD objective is broadly articulated in project documents, it is clear that AEP and LEP originate as short-term gap-filling measures to fill critical posts. Improved capacity was seen as an intended spin-off from on-the-job training and advisers introducing good systems and processes. Regarding the qualitative work of AEP and LEP staff, informants state that many have played a key role in promoting better procedures and more structured ways of working, and have in general promoted and supported the government's public administration reform (PAR) process. Few AEP and LEP recruits have chosen to remain on ordinary civil service terms after the completion of their ARTF-financed contracts.

Stakeholders on the ground express satisfaction that the efforts achieved as much as could be expected, though it has not been possible to verify the criteria or motives for this conclusion. If a more thorough study is to be carried out, relevant informants may be asked to compare with alternative civil servant solutions: those already in place and who continued to work under standard civil service conditions; external technical assistance; civil servants receiving financial top-ups; civil servants hired on projects.

c. Project Efficiency:

The budget was USD 13 million, and 90% has been spent. Actual recruitments began later than planned. With regard to AEP, it took over two years from design until recruitments began in late 2004. LEP was designed in 2004 and started implementing in late 2005. The merger under a new project management arrangement in mid-2005 may have contributed to a slower start of the LEP component than originally planned.

Expectations of AEP and LEP may have varied over time without being clearly specified, but stakeholders agree that costs and delays have been reasonable compared to realities on the ground. In particular, some felt that the real costs of the AEP/LEP are better and more transparent than through bilaterally funded top-up initiatives or project-funded staff.

The same information basis suggested above to look at effectiveness issues could also be used to look at cost-effectiveness/efficiency questions.

d. Project Impact:

The AEP and LEP were set up as temporary measures, and never defined long-term monitorable Impacts/objectives.

If a study were to try to document Impacts, it should presumably concentrate on those results that have been referred to by a number of informants: contributions to new policies, procedures, and instruments. From what has been noted earlier, many of these contributions will have been *ad hoc.* At the same time, however, since advisers were meant to assist on policy, and senior managers are in part to improve processes and instruments, the fact that the AEP and LEP funded staff that had the skills that produced these kinds of outputs should largely be attributed to the project.

For the future, however, as there is now more stability in the public administration, it is important that MCP early on clarifies long-term goals and introduces a realistic results reporting system so that both short-term and longer-term results of this kind can be documented.

e. Results Sustainability:

Sustainability is most likely to be revealed in the form of ministerial policies, processes and instruments. No concrete cases seem so far to have been documented, however, so this remains to be clarified. If a review is carried out, however, expectations are that it should be possible to document such cases.

Another dimension that has been mentioned is the more professional attitude that AEP-LEP staff have brought to public administration, providing on-the-job role models, laying the foundations for a more modern civil service culture, including acting as important supporters and "change actors" for the larger PAR efforts: merit-based recruitment and promotion, and the Priority Reform and Reconstruction (PRR) program. While the role and importance of 230 AEP-LEP staff in a civil service of several hundred thousand should not be exaggerated, these staff were at the same time at the core of many of the ministries and thus had potentially a disproportionate influence. But this kind of impact is difficult to document, and even more difficult to sustain as individuals leave their posts.

f. Project Achievements:

In very difficult and changing circumstances, the project has succeeded in recruiting and deploying qualified Afghans to important positions in the civil service. Actual recruitments have exceeded initial targets by about 50% for AEP and 30% for LEP.

Aside from plugging skills gaps in the administration, the AEP/LEP/CSCB are widely held to have contributed to stimulating the capacity for assessing and formulating needs in ministries, generating an understanding in ministries of the advantage of merit-based appointments, using outreach to broaden the markets for civil service candidates, removing obstacles that prevent qualified Afghans from returning to the country, stimulating skilled Afghan individuals abroad or in international organizations or the private sector to engage in public service, increasing the capacity of ministries to develop policy and implement reforms and new systems, and in time developing civil service capacity in a broad sense of the word, above just individual skills transfer.

Implementation has encountered a string of obstacles along the way, including a deteriorating security situation, political interference and weak individual and institutional capacities. Since the planning of AEP in 2002, there have been many complications with regard to implementation arrangements. The management of the AEP to begin with was seen as both expensive and not very efficient, and the contract with the international implementing agency was not extended when it finally expired in 2007. In 2005 AEP and LEP were merged into CSCB under one management. These examples illustrate that problems have been registered and that corrective action has been taken.

g. Project Short-comings:

Over the years that the efforts have been discussed and implemented, there could have been stronger efforts to develop and tighten the overall objectives of the project and to strengthen the management, coordination and oversight systems.

The lack of concise and updated project plan has been compounded by weak project management for much of the reporting period. The merger of AEP and LEP into a new CSCB in 2005 improved this. Sequenced procurement plans were introduced. But implementing agents over the years, including the present, have never set up and followed a comprehensive project plan, and oversight has reportedly been conducted on an ad hoc basis, though the need for a loosely formulated, flexible project clearly has merit in contemporary Afghanistan. Bridging could have been smoother with better project management and more active oversight.

The AEP and LEP recruitments started later than expected. This was partly because it took a long time to get a political decision on an institutional arrangement for implementation of AEP. But lack of project management capacity from launch also contributed to delays. The allocation of AEP and LEP recruits across ministries has been random. Few have later become civil servants. One issue that has been raised was that the financial incentives may have been insufficient to attract the kind of qualified Afghans that was desired. Informants raised concerns about political manipulation of some recruitments, unclear objectives, changing roles and responsibilities and pulverized accountability.

The AEP/LEP/CSCB were not *operationally* linked to larger CD efforts. This is not a fault of the project *per se*, but rather a responsibility of the national authorities. However, over the years, connections to other CD efforts could have been stronger. In all fairness, AEP/LEP staff have played their role in the PRR processes and have supported PAR efforts, so it seems clear that having AEPs and LEPs in place has provided the ministries affected with individuals and decision-makers that have been important for other public reform processes. But a more strategic approach might have contributed to more focused change in key sectors and functions.

h. Deviation Analysis:

AEP/LEP/CSCB have suffered delays for reasons that mirror the difficult realities in the early post-Taliban years. Capacity is being built from a low baseline, there are many international actors on the scene who are poorly coordinated and with many different systems for the embryonic civil service to relate to. Coordination with MoE and other donors funding CD has been weak.

Delays in the launch of AEP were reportedly caused by slow decision-making with regard to determining which institution should be in charge of implementation. The project was managed by a committee of AEP recruits but with no third-party oversight, no clear place in the PAR strategy, and no clear relation to the pay-and-grade reform. IOM was contracted to process the AEP recruitments, but the services it provided were slow and inefficient.

Delays in the launch of LEP activities were much shorter and coincide with changes in management arrangements for the new CSCB in 2005. LEP seems to have had better management than AEP for most of the reporting period.

Regarding LEP, it was hoped that many would enter the civil service on ordinary terms at the end of their LEP contracts, continuing reforms and building longer-term capacity. In fact very few have so far done so. The main reason is that pay and organizational reforms have still not progressed far enough to provide sufficiently attractive working conditions. The AEP was always more of an emergency gap-filling measure and never expected to result in a significant number of entries into the civil service. Nearly all AEP recruits returned to their home countries upon expiry of their terms, though a handful have chosen to remain.

The project has suffered from poor record-keeping. Early documents pertaining to AEP were not found and seem to be lost. There seems to be no chronological, user-friendly archive of project documents for the AEP, LEP or CSCB. Some important documents lack signatures, addresses and dates. Interviews of people on the ground have often provided different answers as to the chronology and contents of developments. Over time, the short-comings of the AEP and LEP management led to the merged CSCB, and from there to a better structured MCP that is now to follow on from this.

i. Comparative Analysis:

The idea of the project was Afghan, though the attempt at recruiting nationals that have acquired important skills in the diaspora has been done in a number of countries, including post-conflict societies (Bosnia and Herzegovina, Palestinian territories, Timor-Leste). Whether the CSCB has been more or less successful is difficult to state, and would require a more careful analysis, including looking at differences in recruitment effort, the actual insertion and results from using expatriate skills, etc (competition and conflict between returning expatriates with new skills and those who remained in-country during the conflict is a classic issue, but there seems to be no information on this dimension, for example).

In-country the only other capacity-building effort that would be possible to compare with would seem to be UNDP projects, but there are really no dimensions across the projects that would permit meaningful comparisons.

j. Lessons Learned:

Stakeholders agree that the civil service requires skilled personnel at senior levels, to strengthen the administration in the immediate term and to lay the foundations for an increasingly non-corrupt and competent executive in the future. Many note the advantages of AEP-LEP type programs that bring in highly skilled Afghanis whose familiarity with the country setting has made them immediately operational. One observation is in fact that this form of recruitment should be a bigger and more ambitious effort, covering more advisers who are more strategically allocated across ministries and over time increasingly deployed also at the sub-national level. This is much cheaper than foreign technical assistance, more transparent, sustainable and predictable and usually cheaper than donor top-ups, and is a system that is totally owned and managed by the government so allegiance and control is clear, and also ensures that these recruitment programs can be aligned with other government systems and over time be merged.

There is a widespread perception that the projects have proved vulnerable to interference in recruitment processes by leaders in the beneficiary institutions who had preferences with regard to whom to recruit under well-remunerated AEP and LEP contracts. The different pay-scales of AEPs versus LEPs, and between these two categories and ordinary civil servants, have caused some resentment and frictions. Moving to a unified pay scale, as is being done with the MCP, and a policy of narrowing the gap between MCP remuneration levels and the foreseen upward revisions with the PRR process also will make this issue more manageable.

With regard to MCP and beyond, it is advisable for project owners to clarify objective, roles and responsibilities in more detail, and to formulate a (flexible) vision regarding allocation of recruits in certain functions across ministries. Improved reporting and oversight would reassure the donors. This would help the beneficiary institutions, project management and oversight actors to align to targets and be more focused on demonstrating results.

To improve sustainability, MCP planning and implementation should be better coordinated and aligned with other CD activities. UN and EC funded CD activities are implemented by the IARCSC, as is MCP, but USAID is starting up a major CD project on the outside of this. More importantly, the Ministry of Economy (MoE), which is in charge of CD as a thematic and cross-cutting concern in the context of the ANDS, does not have a clear role. Another challenge is that the current draft ANDS CD strategy, while an important step in the right direction, requires more work to become the focused strategy and work plan that is required for costly CD inputs to be allocated well and in a coordinated fashion. The MCP should contribute more to this process and product.

Annex H: Urban Water Supply and Sanitation (UWSS)

Part 1: Project Description and Structure

a. Project name: **Urban Water and Sanitation Project (UWSS)**, project no. TF054729, is the second in a series of four projects intended to establish sustainable water and sanitation services in Kabul and 13 provincial towns. It is funded in parallel by ARTF (USD 41 million) and Germany's *Kreditanstalt für Wiederaufbau* (EUR 11.5 million) and implemented – with major delays – by the Government through the Ministry of Urban Development and Housing (MUDH) and Kabul Municipality (KM).

b. Timeframe:

1. Technical annex (proposal) date: 10 Dec 2004
2. Proposal approved in the Management Committee: 21 Dec 2004
   Confirmation of total commitment of USD 41 million: 18 Jun 2005
3. Proposal/ Grant signed by MoF (Effectiveness date): 21 Feb 2005
4. Amended to adjust the Grant amount to USD 41 million: 12 Nov 2005
5. First disbursement/ allocation to program/ project: 28 Jun 2005
6. Original end date: 30 Jun 2007
7. Revised end date: 31 Dec 2008

Substantive implementation began early 2008, more than three years after effective date. The project has been bogged down in preparatory work, as described below.

c. Institutional implementation arrangements:

Project implementation sorts under MUDH. From the outset, it was decided to implement through the ordinary government structures rather than establish a separate project implementation unit (PIU). The *Central Authority for Water Supply and Sewerage* (CAWSS) has the overall day-to-day responsibility for implementation, along with KM. There have been no changes in the implementation arrangement during the project period.

d. Main stakeholders/partners on implementation side:

Implementation is the responsibility of MUDH through CAWSS. For project components 1 (Kabul Water Supply) and 3 (Provincial Towns WSS), the day-to-day implementation is split between the CAWSS, and the engineering consultant firms financed by KfW in the case of component 1. For component 2 (Kabul Sanitation), the day-to-day implementation is split between KM and the engineering consultant firm.

e. Intended beneficiaries, geographical coverage:

The intended beneficiaries are the urban population of Afghanistan. The project targets Kabul and 13 provincial towns: Sheberghan, Mazar-i-Sharif, Taloqan, Charikar, Jalalabad, Metherlam, Gardez, Ghazni, Kandahar, Qalat, Maimana, Puli Khumri, and Zaranj.

f. Project Structure: Results Framework or LogFrame:

The UWSS project has five components: (1) Kabul Water Supply; (2) Kabul Sanitation, (3) Provincial Towns Water Supply and Sanitation, (4) Engineering Support and Technical Assistance, and (5) Financial Support to CAWSS operations (Aug 2005 – March 2007).

The project has no Results Framework, but the following Program Development Objectives (PDO) and Performance Indicators are provided in the project proposal of 14 February 2005:

Program Development Objectives	1. To provide sustainable, improved water supply and sanitation services to the urban segment of the Afghan population; 2. To build the technical and institutional foundation for the medium-term UWSS program; 3. To ensure continuity of investment by benefiting from the implementation arrangements already in place and fully operational
Performance indicators	▪ Agreement on the institutional arrangements to support the implementation of the medium-term program; ▪ Availability of an investment plan for the medium-term program; ▪ Increase in share of population served by household connections (% population served by water supply system); ▪ Increase in volume of water supplied being properly disinfected (%); ▪ Increase in level of water supply availability (liters per capita per day – lpcd); ▪ Increase in water supply infrastructure coverage (% of population); ▪ Increase in sanitation infrastructure coverage (% of population).

g. Crosscutting themes:

Activities are expected to have positive environmental impact and improve the quality of life in urban areas. Largely a technical project, the UWSS project does not include explicit gender or good-governance objectives. There are some capacity development (CD) objectives, notably for CAWSS. The project documents sets out specific anti-corruption measures/ instruments to be observed in the implementation of the project.

h. Current performance status:

Substantive implementation started up only at the end of SY 1386 (March 2008), largely due to procurement-related delays. A key problem has been land acquisition for well-drilling, another has been procurement of pipelines/equipment for well fields and pumping stations. Contracting for procurement and technical assistance has been done in both the domestic and international markets and in accordance with World Bank requirements, but due to the complexities of some components several contracts had to be re-tendered. The preparation period has also included the establishment of legal and organizational frameworks, including administrative units, associated mergers and asset transfers, and strategic planning.

Meanwhile, the security situation deteriorated, pushing up costs. Original budgets also appear to have been too low. Now that the major contracting is in its final stages, the project seems to require an additional USD 15-25million.

Whereas the project was originally expected to close in mid-2007 and then was extended to the end of 2008, the closing date now will be delayed by a further 18 months to accommodate the construction schedule.

Stakeholders point to a string of factors to explain the delays, including deficiencies in the legal frameworks (e.g. land title) and institutional capacity-shortages at three implementing levels: policy level (MUDH) which e.g. has reportedly failed to establish a unit for water and sanitation to this day, the regulatory level (CAWSS), and the operational level (contractors). Many contracts have been re-tendered for lack of qualified bidders. And many bidders struggle with the paperwork required under World Bank procurement rules.

i. Project budget and disbursements:

ARTF has committed USD 41 million and Germany's KfW has allocated EUR 11.5 million in parallel financing, for the investment plan for component 1 – Kabul Water Supply.

The first tranche of USD 20 million was released 21 December 2004 and the second tranche of USD 21 million on 18 June 2005. Funds disbursed from the project to activities is so far about USD 18 million.

ARTF disbursement is described as smooth, but as per March 2008 the project faces a funding gap of USD 15-25 million. A more accurate figure will be available with the conclusion of bids evaluation for the first component, Kabul Water Supply.

KfW finances an engineering support activity for the project's Kabul Water Supply component. This is done through direct contracting of a consulting firm. Moreover, four construction contracts are jointly financed by ARTF and KfW under WB contracting procedures.

The part of the contract financed by KfW is not subject to local taxes and is paid directly from Frankfurt, whereas the part of the contract financed by ARTF is subject to local taxes and is paid through GoA. It took some time to arrive at an appropriate formulation of the Bidding Documents.

When it comes to joint financing with the KfW, one complication is that KfW is working on the basis of annual commitments, which creates some uncertainty in relation to multi-year planning. This being said, KfW has managed well and the project has not experienced any financial gap till date, though this may in part be because it did not disburse much under the Kabul Water Supply component till now.

However actual disbursement from project to activities is slightly more complicated. Even with the greatest level of flexibility applied, safeguards, then procurement and financial management remain all difficult steps to pass before to get at a point where contracts are translating into timely payments to consultants, suppliers and/or contractors.

Part 2: Project Planning and Results

a. Objectives and Results Framework/Performance Review System:

Are the Objectives clear? Are they understood and agreed to by key stakeholders?	The Project Development Objectives are considered clear and there is a strong consensus on them. They are in fact considered non-controversial and fairly standard.
Which national strategies or plans does this project link to? How?	The project is in line with the UWSS Sector Policy and Institutional Dev't Plan and I-ANDS Sector Four, *Infrastructure and Natural Resources,* Program 6, *Urban Development,* "ensure that 50% of households in Kabul and 30% of households in other major urban areas will have access to piped water".
Is there a Baseline for the project? Is it operational?	Baseline data are available with CAWSS and Kabul Municipality in most of the cases.
Are Indicators developed for the Objectives? Are they easy to monitor?	The Project Development Objectives (PDOs) are backed by Performance Indicators that are largely straightforward.
Have any changes been made to any of these project elements? If so, what are the changes, and when were they introduced?	Some adjustments were made to the investment plans to take into account the developments on the ground but it does not significantly change the project scope as such
Is project management using the RF to manage the project? What has been the experience?	The project does not systematically refer to the Performance indicators to manage implementation as the activities to be carried out are clear to everyone.

b. Risk

Was a risk assessment done as part of planning? Was it realistic?	An assessment was made during preparation which is reflected in the Project Document. It was realistic but under-estimated issues on implementation (i.e. capacity to handle safeguards and fiduciary requirements).
Was a risk management strategy put in place? Is it being used?	Mitigation measures were identified and mechanisms were put in place in the project design. But these can ultimately not compensate for lack of decision making and/or weak leadership in management.
Has the risk picture changed? If so, in what ways, and what has been the response of management to this?	The assessment did not point to constraints regarding fiduciary aspects and did not identify safeguards requirements as potential bottlenecks. These had to be addressed during implementation. The risk picture is evolving as there is now more scrutiny on procurement and financial management, though this increases bureaucratic hurdles, hence augmenting risks of delays. Security is deteriorating and access to provinces by international staff is an issue since it increases the risks associated with more limited room for supervision.

c. Poverty Reduction and Sustainable Development

How does the project address poverty? What are the main poverty reduction targets to be achieved?	UWSS interventions improve access to safe water and sanitation, though the distributional effects to poorer areas depend on financial resources and viability. Effects of improved WSS are known and can be measured though project Indicators are all on Inputs and not poverty reduction related. .
How far has the project come in achieving its poverty targets?	Implementation is just about to start.
Can project ensure sustainability of the poverty reduction results?	See below.
Is the project likely to have an impact, positive or negative, on the environment? If so, how is this being addressed?	The project should have positive effects on the environment through better management of water and sewerage, which in turn has positive effects at general urban sanitary conditions and at household level. The benefits from these improvements will largely be confined to those areas covered by the modern WSS infrastructure, however.
How does the project intend to ensure sustainability of the positive environmental results?	Continued improvements to WSS infrastructure are sustainable as long as the system itself is financially viable. Ensuring the viability of the WSS systems in the 14 urban areas covered by the project is a key objective.

d. Human Rights and Equality

Which human rights issues are included in the project?	N/A
How has gender equity been addressed at Project design? Does the project specify results to be achieved?	WSS interventions usually benefit women as the manager of water and waste in the household but no baseline data on gender impact is available and no indicators/targets have been set by gender or socio-economic group. Surveys to address these issues can easily be designed and implemented, however.
How are the gender equity dimensions being monitored?	It is currently not being monitored.
How have women, vulnerable groups been heard? What are their roles in project implementation, monitoring?	The UWSS project as a basic infrastructure project was designed and is implemented directly with the service providers (CAWSS and Kabul Municipality). Community-based interventions and engagement are found in a different project with IDA funding, the Urban Upgrading project..
What are achievements to date?	n.a.

e. Capacity Development (CD)

Capacity Building for producing Project Results	
Is there a CD program to ensure that the project delivers results? What is the strategy/plan?	Engineering support through two consultancy contracts, individual advisors are important components. The Procurement Unit of the ARDS is facilitating, overseeing all procurement and Treasury in MoF is centrally processing all the financial transactions. – A deliberate choice was made to implement UWSS using standard public administration systems and capacities and not create a project unit, so as not to compromise the capacity development in CAWSS and KM (see PDO 3). Hence, project execution efficiency was somewhat sacrificed in favor of institutional effectiveness objectives.
If there is such a strategy, is it linked to any larger sector or national strategy? To those of other projects or activities?	PDO 2 and PDO 3 are both CD statement, though they are in process terms rather than desired end-states. There is not a particular CD strategy for the sector, rather (i) a general *sector* strategy, which UWSS supports, and (ii) a general CD strategy, which has little to say at sector-technical levels.
What are expected Outputs? What has been achieved so far?	The first two indicators are CD relevant. Targets are only mid-way results. There are no end-state targets or indicators.
Will results be sustainable?	Unclear. At the present, focus is on beginning substantive implementation.
General Capacity Development	
Does the project have a general CD program? What are the objectives and expected results?	CAWSS and KM have direct service delivery obligations, and the contracts with consultancy firms provided some Financial Support to Operations for CAWSS and organizational strengthening for KM's Department of Sanitation. The project provided individual advisors supporting MUDH, CAWSS and KM in their general functions. These advisors are teamed up with government counterparts and is to assist the transfer of knowledge and skills. UWSS project may temporarily support a few positions for re-establishment of the WatSan Dept in MUDH until it can get full support from IARCSC.
How does the CD strategy link with other strategies, other projects, other plans?	There is not a well-defined CD strategy but the CD components of UWSS are in line with I-ANDS *Urban Development* Program, and the sector program. As such it is aligned with the larger sector investments and programs. The implementation strategy, of working through existing structures, is a further contribution to alignment and harmonization that will benefit longer-term sector development. UWSS further links with IDA's UWSP to support WatSan Dept in MUDH, UWSS supports institutional reforms like corporatization of CAWSS with a clear strategy on organizational arrangements are supported by IDA, USAID and KfW/GtZ.
What has been achieved so far?	Project execution is now moving into actual implementation as all major works are being initiated. GoA staff now understand WB safeguards and fiduciary aspects and now more familiar with World Bank procedures.
Will results be sustainable?	Sustainability will improve with the next generation of projects that address institutional/organizational bottlenecks and give promising managers opportunities to grow and make a difference.

f. Conflict sensitivity

How is the project expected to contribute to conflict reduction? How is this reflected in the project design?	The project is supposed to cover all the major cities throughout the country as a way of showing equity and concern for all ethnic groups in the country. To the extent that the project is not able to deliver on this pan-territorial approach because security is becoming more difficult in some regions than in others, the project may in fact face a problem of perceived equity. So far, the scope of the works has concentrated on the southern and eastern regions, Security risks are seen as smaller in urban areas.
How is the conflict picture being monitored? How is project conflict impact being monitored?	All stakeholders are following the security situation.
What are conflict impacts so far? How do they compare with original expectations?	This was never perceived as an issue as no one was expecting the situation to deteriorate further. However, the project is impacted by the deteriorating conditions in the sense that it is becoming difficult to mobilize consultants and contractors (or at least it is becoming more expensive) - thus putting the implementation/supervision capacities into question.

g. Budget

Has the total budget changed since start-up? If so, when, and by how much?	Not yet, but it will have to be adjusted very soon.
Has there been any re-allocations between budget lines /project elements?	There have been limited re-allocation between project components as ultimately all project components are under-funded. The budget will soon have to be adjusted upward.
Has the budget overall been realistic? If not, what were the reasons?	Cost estimates were unrealistic. In the case of works in Kabul, this is because the project did not have sufficient experience with regional contractors to get reliable unit prices. In the case of works in Provincial towns, it seems that costs have escalated as basically local contractors have more work than they can actually handle. In the case of consultancies, the rates seem out of control and time-based contracts are a drain of resources.

h. Financial Management, Procurement and Corruption

Does the project have good financial planning, budgeting, and accounting systems in place? Is project staff competent?	Financial Management (FM) is a weak point in the project. A Chief Finance Officer was recruited recently, but the project still does not submit Financial Management Reports (FMR). However, stakeholders are happy to report that the first FMR is likely to be submitted soon.
Do other funders use different systems, standards? Is this affecting financial management?	KfW proceeds with direct payments to consultants and contractors which limit the control that GoA has on these later but tend to decrease also the burden on GoA in relation to project execution. So, this is rather simplification than complication. In the end, GoA is only responsible to execute the part of the project financed by ARTF and hence there is no potential source of confusion on which system to use.
Are accounts audited? Annually? By external auditor? Have they revealed problems?	Accounts are audited on an annual basis. This is a standard requirement for the entire portfolio. External Auditors are contracted out by the General Auditor Office for the purpose.
How is procurement handled? How does management monitor procurement issues?	Procurement is facilitated and overseen by ARDS. The World Bank monitors procurement as per standard procedures of clearances and system of prior-review / post-review.
Does the project have any anti-corruption measures or policies in place? Are they being monitored? How can they be strengthened?	Standard control mechanisms are applied to this project.
Have any cases of funds abuse been detected? If so, what was the follow up?	A few ineligible expenses were noticed and appropriate measures were taken for deduction/reimbursement.

Part 3: Performance Assessment

a. Project Relevance:

The project is in line with the UWSS Sector Policy and Institutional Development Plan. It is in line with the ANDS Sector Four, *Infrastructure and Natural Resources*, Program 6, *Urban Development*, which by the end of 2010 is to "ensure that 50% of households in Kabul and 30% of households in other major urban areas will have access to piped water". Under Program 3, *Power and Water,* sustainable water resource management strategies and plans including for drinking water were to be in place by end of 2006, a target that was achieved.

The draft ANDS notes that a quarter of the country's 30 million people live in urban areas. In 2005, 20-22% had access to safe drinking water but only 8% to sanitation. However, 31% benefited from investments in water supply and 12% from investments in sanitation during the period 2001-2007.

The project is thus highly relevant both to the situation on the ground, and to the ANDS.

b. Project Effectiveness:

In addition to bringing water and sanitation services to the urban population, UWSS is to build capacity in CAWSS and Kabul Municipality. The form and range of capacities are not specified, however, and results in these fields are currently unclear.

In this project, slow implementation (see below) has been accepted as the price to pay for better long-term institutional development: effectiveness has been seen as more important than efficiency – though since so little is actually in place on the ground it is too early to see what kinds of Outcomes are likely to be delivered.

c. Project Efficiency:

Apart from project component 5 (financial support to operations, completed within budget), the project has not achieved any of its substantive objectives, three years after effectiveness date. Clearly, the program has not delivered efficiently, as per its schedule or budget.

To build institutions, procure land, equipment and facilities, and to contract companies to undertake the prescribed range of project works took much longer than anticipated. The program will be extended for another 18 months till mid-1010. As per March 2008, the program had spent some USD 18 million from its USD 41 million ARTF grant, but there seems to be a need for an additional USD 15-25 million, partly due to unrealistic cost estimates, and partly due to increased prices as a result of a deteriorating security situation.

As any substantive outputs have yet to materialize, there are only preparatory achievements to measure up against the resources. Such achievements have often come at considerable effort and include provision of land for drilling and pumping, procurement of equipment and construction works in order to establish storage and distribution infrastructure, and so forth. The project management capacity in the responsible government apparatus is weak, and the project has been financing the operations of the CAWSS agency. All procurement must adhere to WB standards, which is difficult for local contractors to relate to and delays things but provides a degree of quality assurance.

Both MUDH and KM suffer from weak capacity. Immediate efficiency could have been improved with the establishment of a well-designed PIU and bypass bottlenecks in the ordinary national administration. From the outset, however, it has been a deliberate choice not to do so in favor of establishing uniform sustainable institutional arrangements.

Accordingly, the project has not been very efficient, and is unlikely to become so in the immediate future. With a view to the mid-and longer-term horizons, it is too early to predict whether the project will be considered efficient.

d. Project Impact:

With regard to impact, neither Kabul nor the provincial capitals have adequate water and sanitation services compared to demand, particularly in light of rapid urbanization. The program will need more funds and have to continue until at least mid-2010.

Meanwhile there appears to be persistently low local capacity in the governmental and private sectors, so sustainability is clearly a question. Both the political willingness to make decisions and the managerial capacity to implement the project are improving, but capacity building is a slow process that is often at odds with ambitions to deliver quickly.

All stakeholders agree that the potential positive impact of the program is considerable in many dimensions: with a view to improvement of urban life, public confidence in the state and the international community, social stability. Conversely, a lack of progress is widely believed to have a potential *downside* across the line. Given the history and present-day situation in Afghanistan, this concern is clearly justified.

The delayed service delivery has a negative impact on the intended beneficiary population in the short run, and concrete results hence remain to be seen. It is not meaningful to carry out an impact analysis now, but this will be an important exercise towards the end of the project period, looking both at service delivery and internal capacity developed.

e. Results Sustainability:

Since there are few substantive results as per March 2008, it is premature to say anything meaningful about results sustainability. As noted, the decision to implement UWSS through the executive branch of the Afghan state (MUDH/CAWSS), and not use a speedier but *ad hoc* PIU, was in part to ensure institutional impact and sustainability.

One concern is the apparent lack of leadership. The MUDH has not established an office to liaise with the CAWSS, an external agency, so the ministry does not answer correspondence, provide guidelines or offer problem-solving support to the implementers. Lack of a committed leadership is obviously critical to sustainability in the sector.

f. Project Achievements:

No real achievements on the ground for intended beneficiary groups. The initial capacity building approach of working through the public administration seems to be paying off, and the preparatory work seems now to ensure smoother implementation on the ground with most procedural, practical and contractual pieces in place.

g. Project Short-comings:

The program has not delivered the expected outputs within the foreseen timeframe, so the most disappointing result is a continuation of sub-standard public services in the area of urban water and sanitation. Nor have there been documented substantive improvements to the capacity to deliver these services.

h. Deviation Analysis:

MUDH has been criticized for lack of charge, focus and energy. This has paralyzed the lower implementing level. A concrete example is that the ministry has not established an in-house mechanism to oversee or support the line agency (CAWSS) in charge of implementation. One consequence is that correspondence from the project is not answered, or only very late.

CAWSS, the implementing agency, has suffered from weak organizational capacity. This was clear at the outset of the program. Nevertheless, the stakeholders hoped that – with a flexible UWSS program and technical support over time – the implementation capacity in the national apparatus would improve relatively fast. UWSS sought to address the issue by providing some technical advice and underwrite a minimum of CAWSS operations budget for a short period. But there is little evidence of any major or lasting capacity increase over the reporting period.

Officials and contractors alike struggle with the complicated paperwork involved in a WB-standard procurement process. There has been a lot of re-tendering due to technicalities and big "unnecessary" delays for that reason. Nevertheless, there has been a strict approval policy by the WB, with very little room for officials or contractors to cut formal corners, even in the face of serious delay. Given the context, a clear and strict practice appears to have considerable merit, with a twin view to capacity building and control.

i. Comparative Analysis:

This is a project that could be compared with other infrastructure projects. This evaluation team did not look at other infrastructure projects, however, so no such comparison was made.

j. Lessons Learned:

The most important lesson is that it is important to support national capacity development, but that this will need to be spread over a longer period than the time frame of the project, and that it can be a slow and thus costly process. Significant capacity development will only take place over a series of projects and thus needs a programmatic approach. If this is the strategy chosen, it needs to be planned much more carefully than seems to have been the case here. One thing is that capacity development largely makes sense if there is a strong political will to build own capacity. If the project has to support the development of both political will AND management and implementation/technical capacity, this is a much slower and frustrating process. Although there now appears to be a political will for capacity development, these issues had not been analyzed carefully up front. The approach seems to have been a more *ad hoc* and *ex post facto* justification for a political decision to go with national execution rather than a careful analysis and derived action plan to ensure the success of this modality.