



AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)

Strategy Group Meeting

Wednesday, October 17, 2018

Summary of Discussions

The ARTF Strategy Group (SG) held its monthly meeting on Wednesday, October 17, 2018. Representatives of twelve donor partners,¹ the Ministry of Finance (MOF), and the ARTF Administrator (World Bank) attended. Mr. Shubham Chaudhuri, World Bank Country Director, chaired.

Summary

The SG discussed four pipeline projects: Cities Investment Program, Eshteghal Zaiee-Karmondena, Fiscal Stability Facility, and Tackling Afghanistan's Government HRM and Institutional Reforms. The projects, which together are valued at US\$425 million (of which US\$225 million is expected to be financed from ARTF) are expected to be presented to the ARTF Management Committee and World Bank Board of Executive Directors (as required) in November and December. Members also discussed the latest quarterly update on the Anti-Corruption and Results Monitoring Action Plan approved in the PFFP as well as updates from the ARTF Gender Working Group and on the financial position of the Fund. Members requested to hear updates from the ARTF Monitoring Agent and Supervisory Agent in a future meeting.

1. Cities Investment Program (CIP) and Eshteghal Zaiee- Karmondena (EZ-Kar)

CIP briefing by Co-TTL Sateh el-Arnaout

- Urbanization has placed city infrastructure under stress. Growing housing and economic informality has been observed, and services have been stretched. Weak institutions, limited interventions, and weak integration of investments have resulted in cities with extremely limited ability to manage, finance and implement initiatives. CIP aims to work with targeted cities to build the backbone of the urban network. The CIP Program Development Objective (PRDO) is to improve the sustainability and livability of nine regionally-balanced Provincial Capital Cities (PCCs). The Project Development Objective (PDO) for the first in a Series of Projects (SOP I) is to introduce sustainable municipal finance and management systems and rehabilitate municipal infrastructure in five participating PCCs.
- The \$50 million project will be co-financed by IDA (\$25 million) and ARTF (\$25 million).
- The project will include four components: 1) Rehabilitate and Expand Municipal Infrastructure Coverage; 2) Strengthen the Municipal Finance Framework; 3) Improve the Municipal Management Framework and 4) Project Implementation Management. Cities will need to demonstrate progress against reform priorities (public financial management and construction permits, for example) to access project benefits. The project aims to move beyond emergency

¹ Australia, Canada, Denmark, European Union, Finland, Germany, Italy, Japan, Korea, Norway, United Kingdom, United States.



support measures to focus on medium-term priorities, but complements EZ-KAR in supporting cities most heavily impacted by the influx of displaced persons.

- CIP design has involved stakeholders from within the Government, Transport, IDLG, municipalities and communities within, MUDH and provincial offices of same. The team worked with USAID, and also consulted closely with UN Habitat on design issues. A new Municipality Law draft is expected to be released soon, and a new sub-national law is also being considered. Both are factors that can affect program implementation, and the design has attempted to incorporate as flexible mechanisms to adjust as GoIRA's legal framework develops.
- The Bank will hold an internal decision meeting on October 22, after which appraisal is planned for October 28-November 2, 2018, and negotiations are planned for November 10-15. The project team would value written comments by October 21. Because the project will be co-financed by IDA and by ARTF, it requires approval by both the WBG Board of Executive Directors and the ARTF Management Committee (MC), which are targeted for December.

EZ-Kar briefing by Co-TTL Kosuke Anan

- The large influx of returnees and IDPs has placed pressure on the economic and physical infrastructure of host communities, with provincial capital cities facing unprecedented economic, demographic, fiscal, and environmental challenges. Poor market infrastructure constrains the enabling environment for business activity. EZ-Kar aims to promote private sector-led sustainable job creation in host communities, emphasizing a shift “from red tape to red carpet”, or a more investor-friendly way of operating. The Project Development Objective is to strengthen the enabling environment for economic opportunities in cities where there is a high influx of displaced people.
- The initiative will have five components, each led by a different agency: 1) Regional and National Integration of Displaced Persons will provide support for Afghan refugees in Pakistan. MoFA and MoRR will lead this approximately US\$4.5 million component, in collaboration with UNHCR; 2) Short Term Employment Opportunities and Market Enabling Infrastructure will be led by IDLG in collaboration with the Citizens' Charter Afghanistan PIU. The approximate value of this component is US\$120.5 million; 3) Market Enabling Infrastructure and Reforms for Kabul Municipality, estimated at US\$40 million, will be led by Kabul Municipality in collaboration with the Kabul Municipality Development Project; 4) Prioritized Urban Investments In Four Provincial Capital Cities (approximately US\$25 million): IDLG (CIP PIU); and 5) National Regulatory Reforms and Program Coordination (approximately US\$10 million) led by the Ministry of Economy. Altogether, the \$200 million project will be funded \$150 million from the IDA regional window, \$50 million from Afghanistan IDA, and \$50 million from ARTF:
- The \$200 million project will be co-financed by IDA (\$150 million, drawn from regional and Afghanistan IDA funds) and ARTF (\$50 million).
- Since the Concept Note was distributed, the project design has evolved somewhat, being re-organized so that each component is managed by a distinct implementing agency, and so that progress on reforms will serve as a trigger to disburse funds for priority projects in the



municipalities. The team has decided that projects will be implemented at the Gozar, rather than CDC level, and that a municipal advisory board to assist in identifying projects in consultation with private sector. Given the importance of coordinating across project components, a DM-level coordinating body will be established to focus on project implementation.

- Appraisal and negotiation timelines are similar to those for CIP, and like CIP, EZ-Kar will require both WBG Board of Executive Directors and ARTF MC approval, both of which are targeted for December. In addition to inputs provided during consultations during project preparation missions and in the GWG, the team would value written feedback on the PAD by October 21, ahead of the October 22 internal decision meeting.

Discussion

- USAID encouraged the teams to review proceedings of the recently convened mayors' conference to ensure the program designs reflect some of the themes addressed in the conference. USAID concurred with the importance of consultation with existing programming at the subnational level, both to draw on lessons from other long-term implementation efforts and to avoid overlap/crossover between these programs and both CIP and EZ-Kar, as well as potential World Bank-supported sub-national governance programming and existing programs. After a review of its SHAHAR program, USAID has concluded that including additional emphasis on local implementation (moving beyond the central agencies) is important for progress. The new Municipality Law has a provision to establish a municipality incentive fund for municipalities, an initiative USAID has been championing.
- The World Bank teams observed that guidance from the President has heavily emphasized performance and accountability at the municipality level. For both the CIP and EZ-Kar programs, specific cities have been identified (for CIP, these are cities with a key economic role, and for EZ-Kar, cities facing absorption stresses). Project preparation has included intense engagement with the mayors of those cities. A common refrain from these mayors, which has been reiterated by IDLG, is that mayors have a huge list of service delivery responsibilities. The teams have also observed that mayors do also have direct control over certain aspects of the investment environment and a potentially powerful role in that regard.
- Noting ongoing global discussion about the extent to which women feel unsafe in cities, and gender challenges in Afghanistan specifically, a question asked if the projects had incorporated any gender analysis in their planning. Both teams affirmed that they had, including preparing an analysis of indicative investments that cities would expect to prioritize under the project frameworks. The lists include a number of gender-specific investments (including parks and facilities for children). In EZ-Kar discussions, some neighborhoods have indicated they hope to prioritize, for example, women-only markets.
- A comment expressed appreciation to the EZ-Kar team for briefing the ARTF Gender Working Group on the project, and noted that GWG members had flagged gender considerations that could be used to enhance the program design. The team affirmed that it had incorporated comments, including ideas on how to ensure that community-level subprojects are gender informed, and how to ensure women's involvement in decisionmaking into the PAD. Some elements of the GWG input will also be incorporated in the operations manual in more granular detail.



- A question asked if EZ-Kar would engage MOLSAMD. The World Bank explained that given the challenge of coordinating the line ministries associated with the program's five components, MOLSAMD will not have a specific role in the project, although the World Bank is working closely with MOLSAMD on Placing Labor Abroad and Connecting to Employment Domestically (PLACED), another pipeline project. A related question asked why EZ-Kar envisions establishing an inter-ministerial body for program management, and asked if this would conflict with the DIReC. The World Bank clarified that the body is meant to be a committee of Deputy Ministers from implementing agencies, focused more narrowly on operational and technical aspects of the EZ-Kar program. It is similar to the model being used for Citizens' Charter, and is seen as a supplement to DIReC, but not in conflict with it.
- In addition to the inputs provided during the preparatory period for both projects, the teams will welcome written comments on the PADs in the week to follow the SG meeting. Some members noted that PADs had only been shared recently, and expressed concern about whether this would provide sufficient time to provide input. A comment asked if donors would have an opportunity to review PADs before the projects move to negotiation to assess if comments had been incorporated. The World Bank noted that it needs to make judgment calls in finalizing PADs, which are not negotiated products of donor inputs, and are not solely World Bank documents – they are also Government documents. Internal deadlines make re-dissemination ahead of negotiation difficult, but teams will be asked to provide feedback on any written comments received. The World Bank re-affirmed its commitment to incorporating donor input in program design, and encouraged donors to engage with programs early in the design phases of programming.

Fiscal Stability Fund (FSF) briefing by Co-TTL Syed Waseem Kazmi

- Afghanistan has maintained broadly balanced budgets over recent years, but fiscal accounts are vulnerable due to emerging political and economic risks. The electoral cycle poses a risk to the recovery in domestic revenues since 2014, and some revenue streams have fallen short of targets. A decline in foreign aid against committed levels would expose Afghanistan to fiscal imbalance, particularly as the ARTF RCW's baseline financing is no longer available to the government.
- Taking note of the Government's preference to use conditionality to align assistance with the country's development objectives, the project development objective of the FSF is to support improved predictability of recurrent expenditure payments during the period of political transition. It establishes three withdrawal conditions that must be met in order for the Government to access FSF funds: 1) 80% of the revenue target for the year 1397 achieved; 2) the monthly average cash balance is not below the threshold agreed with IMF net of salary arrears; and 3) no salary arrears (salary claims pending with Treasury for more than 10 days) are present on November 10, 2018. Provided conditions are met, the Government will be able to submit a reimbursement application which will be subject to review for eligibility by the ARTF Monitoring Agent.
- FSF has been discussed extensively in the Incentive Program Working Group, in previous Strategy Group meetings, and in a series of individual meetings with interested partners.



- The \$100 million project will be financed from ARTF, and as such requires approval only by the ARTF MC. Given tight timelines ahead of the end of the fiscal year, donors are asked to provide final written comments by October 24. Appraisal and negotiations are planned for October 27, with MC meeting to vote on approval planned for November 5.
- USAID noted its interest in ensuring that donor views are represented to the MC when programs such as the FSF, on which donors have varying views, are discussed. Germany concurred that an opportunity to observe the MC meetings would be useful. The World Bank noted its commitment to transparency, observing that MC minutes are made available to donors. The ARTF governance structure is established in the original board paper and the administration agreement, among other sources, and the Afghanistan country office has committed to working with donors to review the administration agreement following discussions over the summer. A donor observer is welcome to join MC meetings in the interim. USAID observed that while it is not opposing the FSF, it has some concerns about the initiative and broadly speaking would prefer to see future iterations funded through IDA rather than the ARTF. The World Bank affirmed that it had discussed these concerns extensively not only with USAID but also with other ARTF donors that had different views. The FSF design reflects a balance of the varying inputs from stakeholders.
- A comment asked why one of the withdrawal conditions is achievement of 80% of the FY revenue target, and queried whether such a condition would lessen the incentive for the Government to achieve 100% of its annual revenue target. MOF explained that the condition was selected to both incentivize performance but also address shocks; past experience during electoral periods has suggested that some declines in revenue are the product of exogenous factors. For example, electoral-related violence can lead to road blockages, which can in turn affect revenue. The World Bank noted that selecting the right withdrawal conditions – conditions that will incentivize, rather than undermine, performance – has been the subject of extensive discussions in program design. The team observed that the withdrawal condition is set at 80%, but that revenues will continue to be monitored with a higher percentage proposed for the disbursement condition. In response to a query on the status of revenues to date, MOF affirmed that it had achieved the IMF target as of June 21 and continues tightly to monitor revenue, but said frankly that it anticipated a degree of violence around elections, and noted that it is somewhat difficult to predict the resulting impact on revenues.

2. Tackling Afghanistan’s Government HRM and Institutional Reforms (TAGHIR) briefing by Co-TTL Attiqullah Ahmadzai

- The team explained that the project acronym means “change” in Dari. Though recruitment has improved over the last year, civil service capacity remains low, constraining service delivery and the management of public investments. Key challenges in this regard, include: 1) a lack of verifiable data on civil servants prevents efforts at automated payroll verification, and restricts the effectiveness of establishment control and strategic allocation of staffing; 2) inadequacy of the current Pay and Grading scale makes it difficult to attract and retain talent in key technical and professional areas across the public sector; and 3) the NTA salary scale remains a key risk both from a sustainability perspective and in terms of impact on the capacity development of the civil service.



- The Project Development Objective is to strengthen the capacity of selected line ministries and agencies through merit-based recruitment of key positions, improved personnel management, and better HR planning. The project includes three components. The first component will finance up to 1,500 new and legacy CBR positions across 15 priority ministries that have been selected to support the Government in delivery of key policy priorities. The second provides financing for an integrated HRMIS/payroll system to strengthen establishment control and personnel management and contribute to more reliable payroll management, and the third provides financing for discrete technical assistance to support implementation of key administrative reforms.
- The \$75 million project will be co-financed by IDA (\$25 million) and ARTF (\$50 million). A project appraisal mission is confirmed for October 21-24, at which time an additional briefing will be made available to interested donors. (A summary of the PAD was distributed to donors ahead of the SG meeting, and the full PAD was distributed shortly after the meeting.) The project will be submitted to the WBG Board of Executive Directors and the ARTF MC in December.
- A comment observed that the US dollar-denominated NTA scale increases the cost of sustaining project-supported NTA positions. The team concurred and noted its objective of moving towards a salary scale that is aligned with the fluctuating value of the Afghani.

3. Updates

- **Quarterly Anti-Corruption and Results Monitoring Action Plan (ACReMAP) update:** The World Bank summarized five major actions taken under the evolving ACReMAP agenda during the last quarter, and pointed SG members to the matrix at the end of the written update provided ahead of the meeting outline progress on key features of the original ACReMAP made in October 2017.
- Since the original proposal, teams have also generated new ideas, including in particular the concept of risk-based support that could offer increasingly hands-on means of supporting high-risk procurement processes. The World Bank is exploring means of collaborating with the Integrity Vice Presidency team to provide such procurement support, beginning with the ongoing SEHATMANDI procurements for health services and potentially expanding to other projects.
- Physical verification of government employees was a subject of discussion in the last update. Previously, the Monitoring Agent was only able to reach 50-60% of the employees in the statistically-generated sample of payroll transactions for verification. By engaging the Supervisory Agent, which has a substantially larger geographic range, the coverage rate has increased to 97%.
- As noted in the last update, not all employees that the SA attempted to reach in its initial rounds of verification were found. The World Bank discussed the initial results with MOF/Treasury, which has sent its own team to re-verify. An initial report of that process suggests that Treasury has been able to verify additional employees from the SA's sample. A comment observed that discrepancies or errors in administrative record-keeping, of the type that TAGHIR is aiming to address, need to be distinguished from "ghost" workers, and asked



if any of the preliminary results suggest a large number of ghost workers in a particular sector. The World Bank noted that the majority of employees that could not be verified in the SA's initial efforts are from the education sector, but that is a function of the fact that 60% of civil service employees are teachers. Other sectors included justice, health, and smaller numbers from other ministries. Thus far, there are findings that are problematic that should not necessarily be characterized as "ghosts". While some "ghost" employees likely do exist, the results at present do not suggest a large number. The MOF elaborated on this point, noting that bureaucratic documentation lags seem to account for some of the non-verifications, and security concerns may account for others. For example, in one instance a District Judge was unsure about the purpose of the verification visit and declined to meet the SA team out of security concerns, and the results of that visit were marked as unverified. These are issues of concern to the Government, which they hope to tackle through TAGHIR, but do not necessarily suggest large numbers of "ghost" employees. A question asked if the Government plans to employ biometric verification for civil servants, similar to the efforts being undertaken in the security sector through LOTFA. MOF and the World Bank confirmed that the pipeline project PAISA, currently targeted for approval in March, will begin to address this issue. Members requested an update from the MA and SA in an upcoming meeting.

- **Gender Working Group update:** In its October meeting, the GWG heard a briefing on EZ-Kar and held a discussion with ARTF Supervisory Agent MSI. The GWG welcomed the EZ-KAR's offer to "crowd-source" ideas on gender, and GWG members committed to link the team with their other programmes operating in the area (notably MoLSAMD on WEE-NPP, and the UK on our Investment Climate programme). Members indicated that they would welcome further discussions when the EZ-KAR team are next in country and had encouraged the team to integrate their suggestions into the PAD (as noted in the EZ-Kar this discussion, the team affirmed that suggestions have been incorporated and will be further developed in the project Operations Manual).
- GWG members also commented on the importance of third party monitoring for deepening the understanding of project gender dynamics of projects in ways that cannot always be captured through quantitative reporting. The GWG is very supportive of the greater roll-out of TPM moving ahead, and welcomed the SA's valuable ideas on enhancing the collection of more qualitative data through monitoring efforts, which might usefully inform the ARTF Scorecard moving forward.
- **ARTF administration agreement revisions for ASIST and ACREMAP:** Members confirmed that they had received the new ARTF administration agreements, revised to reflect the addition of the ASIST and ACREMAP windows, which the World Bank had distributed to donors earlier in the month. A question asked why the administration agreement continues to refer to the RAP window. The World Bank confirmed that the window is no longer active for new projects, but explained that it remains technically open to finalize accounting of some project budget lines.
- **ARTF Financials:** A monthly financial update was distributed to donors. The updated report format aims to provide a picture of ARTF financials looking back three months and looking forward two months. Actuals are reported as of September 22, and the report provides past data through June 21 and projections through November 21. The projects discussed in the meeting, if approved, will require new commitments to be made. As the World Bank cannot



sign grant agreements for new projects until sufficient funds are received in the parent trust fund, timely contributions to replenish the parent fund are important, and thus the projections are designed to help donors consider the timing of contributions. Earlier in the summer, there was a point when the World Bank was concerned about whether payments potentially due under the IP-DPG in November could be made, but with projected contributions in the next month, the financial position is adequate to cover IP-DPG payments. Note that contributions are only recorded as “receivable” when a written communication has been received as to the amount and expected timing, so some contributions to be made in this calendar year may not be reflected in the report. In response to a question about whether a forecast could be made for the full year, the World Bank said it can currently project two to three months ahead with accuracy, but can attempt a longer forecast (with some reduction in certainty). Another comment observed that if there are points in the year when contributions would be particularly helpful, some donors have flexibility and would be open to suggestions to adjust timing.

4. AOB

- The next Strategy Group meeting is planned for 21 November. If there are specific topics of interest for discussion in this meeting, donors are encouraged to let the ARTF team know by the first week of November.
- Ms. Lisa Brown of Australia and Ms. Azani Tschabo of Germany were both attending their last ARTF Strategy Group meetings. The Strategy Group thanks both colleagues for their valuable and constructive engagement during their assignments.