



AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)

Special Strategy Group Meeting

Thursday, May 3, 2018

Summary of Discussions

A special session of the ARTF Strategy Group (SG) was held on May 3, 2018, and was attended by 11 donor agency representatives¹, and the ARTF Administrator (the World Bank). The meeting was opened by Mr. Shubham Chaudhuri (World Bank Country Director).

Summary

The Bank opened with an update on recent developments related to the ARTF Partnership Framework and Financing Program (PFFP) and preparation of the proposed EQRA project. The agenda addressed two thematic priorities for the ARTF: 1) moving towards increased use of results-based financing instruments, and 2) ramping up monitoring and strengthening anti-corruption mechanisms.

ARTF PFFP and EQRA project updates.

- The Bank informed the SG that as there is now clarity on the main government priorities, the draft ARTF PFFP will be updated to reflect both the government decisions and the outcomes of technical discussions being held with the SG on thematic priorities. The Bank also encouraged partners to propose a different schedule for the thematic discussions if the current schedule was too intensive.
- The UK suggested to include an additional session to discuss the ARTF PFFP in the coming week. Germany noted that some additional time may be needed to consult with their capitals on some of the issues being discussed. The Bank proposed that the SG reach consensus on how to reflect the thematic priorities in the PFFP by the end of May, with the aim of having a fully updated draft of the document by then. The SG agreed that given the detailed thematic discussion that are now ongoing, the previous request for a month's lead time to review the PFFP would no longer be necessary - roughly two weeks to consult with capitals on the revised PFFP draft should be sufficient. **Way forward:** The Bank will prepare a timeline for meetings/milestones for finalising the PFFP through June.
- The Bank updated the SG on the status of preparations for the proposed EQRA Project. Discussions with the government are ongoing regarding the financing modality for school construction. In a recent decision, the President has set a target of constructing 6,000 rural schools and asked the Bank to support this effort through EQRA. This has resulted in a change in the implementation arrangement where the Ministry of Rural Rehabilitation and Development (MRRD) would coordinate with the Ministry of Education (MOE) to lead rural school construction. While the proposed design so far has contemplated use of disbursement-linked indicator (DLI), a form of results-based financing, the Ministry of Finance requested the Bank to convert this to regular input

¹ Australia, Canada, Denmark, EU, Finland, Germany, KfW, Italy, Japan, Sweden, Switzerland, UK.



financing modality. The Bank offered to provide a separate briefing early next week on this issue to interested development partners.

Moving Towards Increased Use of Results Based Financing Instruments

- The Bank outlined two options for increasing the use of results-based financing in line with Government preferences articulated in the Afghanistan National Peace and Development Framework.
- First, the Bank, in consultation with the IP working group, has been working to design the new Incentive Program Plus using the Bank's Development Policy Grant instrument, while preserving the flexible and incentive-based mechanism of the Incentive Program. To mitigate risks associated with the move towards increasing emphasis on structural reforms, a fiscal stability fund (FSF) is proposed to be established to create a pool of funding the government could access in the event of a liquidity shortage stemming from unexpected economic/political shocks or slower than-expected progress against policy reforms, subject to certain conditions being met. This proposed FSF would be separate from the IP Plus DPG and would likely be financed through an investment project similar to the current Recurrent Cost Window. The Ad Hoc Payments window would also continue to remain open. Neither the IP Plus DPG nor the FSF would require an explicit decision from the Steering Committee. Rather, the SC would be asked to endorse the proposed funding allocation from the ARTF for the three-year IP Plus DPG as part of their decision on the overall ARTF financing program.
- Second, the potential use of innovative features that introduce incentives, including disbursement-linked indicators (DLIs) have been used in some of the recently approved programs, and are being considered for several of the pipeline investment projects. Examples include performance-based contracting features of the new Sehatmandi program, the possible use of DLIs in the proposed TAGHIR project to maintain political support for critical civil service reforms, and the proposed EQRA project to incentivize improvements in education quality and governance. Because DLIs require the government to fund program expenditures up front, this option must be introduced carefully to projects, to balance other fiscal concerns.

Discussion

IP Plus DPG and FSF

- A suggestion was made to consider whether the FSF can be designed in a way to address both liquidity shortage (negative shocks) on the one hand and incentivize good performance (positive shocks such as strong revenue performance) on the other hand. The suggestion points to the need to make sure no FSF fund is left unused, especially in the case that the government does not face cash flow shortages. The Bank agreed that a mechanism may be needed to ensure that funds allocated to the FSF are fully used, but also noted that further thoughts are needed to address this aspect. The Bank asked for further ideas from donors at the next IP Working Group meeting scheduled on May 7.
- Comments noted the importance of focusing the IP Plus on implementation of reforms, rather than policy and institutional actions. The Bank clarified that some of the first-year policy or institutional reform benchmarks under the ANPDF pillar will lead to more implementation-oriented benchmarks to operationalize the first year's reform actions. Second year reform measures will be further specified when the second-year operation



is prepared. The Bank team also noted that the first-year reform actions under the FPIP Pillar is largely implementation-oriented.

- **Way forward:** The IP Working Group will continue to discuss the design of the IP Plus DPG and the Fiscal Stability Fund.

IPF with DLIs

- A comment queried whether the government would be able to fund the initial expenses associated with DLIs. The Bank explained that the incentivized elements of Investment Window projects are being carefully selected to ensure that they require primarily policy action, with limited associated costs. Striking a balance between the government's ability to pre-finance agreed activities which would then be reimbursed through the DLIs is critical. The option must be considered on a case-by-case basis and weighed against fiscal and institutional realities, and is likely to be introduced slowly.
- A question asked for clarification on the current the use of DLIs in investment projects- The Bank noted that DLIs are currently being used in two projects: the HEDP and the Second Skills Development Project (IDA financed). Sehatmandi does not use DLIs *per se*, but rather employs tranche release conditions for the ARTF portion of funding, whereby funds would only flow from the ARTF parent account to the project child account once certain actions have been fulfilled by the MoPH.

Strengthening Anti-corruption and Results Monitoring in the ARTF-ACReMAP Window

- The Bank summarised the elements of the Anti-corruption and Results Monitoring Action Plan (ACReMAP) it is developing, and has begun to implement. The ACReMAP will employ a multi-layered set of tools encompassing fiduciary controls and enhanced results monitoring to ensure "value for money" in ARTF-funded programming. The tools are expected to include: (i) regular fiduciary and safeguards oversight; (ii) enhanced third party monitoring (TPM); (iii) in-depth reviews; (iv) open government/citizen engagement. The Bank has begun implementing a number of these enhancements, including by undertaking a detailed transaction review of the ARAP project, initiating a fiduciary review of EQUIP II and teacher salary payments, working with the existing TPM contractors to introduce a joint approach for physically verifying civil servants, and initiating quarterly updates to donor partners on ACReMAP activities.
- Currently ongoing initiatives to enhance TPM have been enabled by the voluntary cooperation of TPM contractors. Expanding and systematizing the full range of improvements outlined in the brief will increase costs. The Bank outlined a proposal to open a new Bank-executed ACReMAP window in the ARTF to support the costs of enhanced TPM, as well as costs associated with in-depth fiduciary reviews. Funding of US\$50 million is proposed for the ACReMAP window, broken down as follows: (i) additional \$US8 million for modified TPM contracts for the remainder of 2018; (ii) US\$40 million for the new TPM contracts for 2019-2020; and (iii) US\$2 million for 2018-2020 for in-depth fiduciary reviews. The Bank Country Management Unit will to oversee ACReMAP activities with support from the Governance Global Practice (GP), Poverty & Equity GP and the Integrity Vice Presidency's Preventive Services, Forensic Services, and the Investigations Services.
- The SC will be asked to approve: (i) the establishment of the ACReMAP as a fourth Bank executed window under the ARTF; (ii) the annual financing allocations from the



core ARTF finances (2018-2020) for the ACRReMAP window. Should the SC endorse the creation of the new ACRReMAP window as part of the PFFP, the MC would approve the transfer from the ARTF parent trust fund to the ACRReMAP Window.

Discussion

- A question asked if ACRReMAP encompasses work to help the government improve its own capacity to detect and prevent corruption or other forms of misuse of funds. The Bank explained that government capacity in anti-corruption is addressed in a wide range of ongoing programming activities (e.g., FPIP, CBR), but is not necessarily explicitly labelled as anti-corruption-focused. ACRReMAP sets out the measures that the Bank will implement on a country team-wide basis to enhance its own efforts. The EU asked for the next iteration of the paper to include a paragraph specifically outlining government capacity building measures, and the expected impact of ACRReMAP activities on development outcomes, which would be useful in justifying the cost increases to funding authorities.
- A question asked whether the in-depth fiduciary assessments can be used to inform future program designs. The Bank responded that they can be, and some of the preliminary findings of the education fiduciary review have already been reflected in the design of the proposed EQRA program. Discussion also encouraged continued efforts to improve follow-up on TPM findings, including potentially by feeding findings into incentivised performance measures and more structured follow-up with government ministries. On the question of whether ACRReMAP activities could be used to inform or enhance impact evaluations, the Bank observed that many of the ACRReMAP initiatives are designed to improve real-time information for program oversight. Benefits to impact evaluation processes would take longer to materialize.
- A participant asked if the performance of the current TPM agents has been formally assessed, and if so whether the assessments could be shared with partners. The Bank responded that it has not recently conducted a formal assessment of the TPM agents, in part because the structure of the current contracts provides for clear deliverables and ongoing dialogue with the Bank's technical teams. A more formal process could potentially be considered moving forward. Donors also have access to the TPMs' work shared reports (though it has been difficult to find a mechanism for distributing the detailed SA reports, which are bulky) and periodic discussions in SG meetings.
- **Way forward:** The Bank will revise the ACRReMAP section of the draft PFFP to move some of the technical detail to annexes, and to reflect discussion in the meeting. Donors are asked to provide any additional comments/inputs in the coming days.