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FROM: Vice President and Corporate Secretary

Afghanistan Reconstruction Trust Fund

Changes in Governance Structure

1. Attached for information is a note on the changes in governance structure of the Afghanistan Reconstruction Trust Fund (ARTF), allowing for the Government of Afghanistan to become an observer on the ARTF Management Committee.
2. Questions on this document may be referred to Ms. Sherman (ext. 32620).

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Informal Board Briefing Note
Afghanistan Reconstruction Trust Fund (ARTF)
Changes in Governance Structure

The Government of Afghanistan (GoA) recently requested that it become a member of the ARTF Management Committee. To respond to this request, a note on the topic was formulated and shared with the Management Committee (MC) and then discussed with the Donor Committee in Kabul and GoA. Following the discussions with the Donor Committee it was agreed that this change in the governance structure would be made. In addition, the membership and operation of the Donor Committee has evolved since the ARTF was conceived as the size of the trust fund has grown. This note summarizes the governance structure as set out in the original Board paper on the ARTF, and the approach to be followed going forward.

The ARTF Governance Structure

The original three-tiered governance structure of the ARTF is described in the proposal approved by the World Bank's Board, Afghanistan Reconstruction Trust Fund, Proposal by the World Bank, the United Nations Development Programme, the Asian Development Bank, and the Islamic Development Bank (Board Document No. R2002-45) dated March 21, 2002 (the Proposal), which established the ARTF. According to the Proposal, the structure of the ARTF would comprise "...*(1) the World Bank as Administrator of the ARTF; (2) a Management Committee (MC) composed of ADB, IsDB, UNDP, and WB at the next level; and (3) contributing donors of the ARTF at the third level... The GoA, although not part of the formal governance structure of the ARTF, would play an integral role in reviewing proposals for ARTF funding and submitting to the MC those proposals which it considers are consistent with national priorities as embodied in the budget. Only proposals endorsed in this manner by the GoA would be eligible for ARTF funding. The exact counterpart arrangements for this process would be agreed with GoA.*"¹

The proposal also described the role of donors in the ARTF governance. "*Donors would participate in the governance of the ARTF in two ways. All contributing donors would receive quarterly reports on ARTF expenditures and on decisions taken by the MC. In addition there would be an annual meeting of all contributing donors to the ARTF, joined by the GoA, at which the previous year's performance and overall priorities and strategic directions would be discussed.*

¹ Paragraph 16 of the Proposal.

The second mode of donor participation in the governance of the ARTF would be through a smaller Donor Committee (also including participation by the GoA) which would meet every quarter in Kabul to review quarterly performance of the ARTF and provide guidance particularly with respect to short-run implementation issues. The MC would prepare substantive quarterly reports for the Donor Committee, which would be shared with all contributing donors along with the minutes of the quarterly meetings of the Donor Committee. In the interest of having a Donor Committee of manageable size for effective working, the Donor Committee would consist of donors who make paid-in contributions to the ARTF of at least US \$5 million per year, plus two seats on the Donor Committee for representatives of other contributing donors who do not meet this threshold².”

The actual functioning of the Donor Committee, originally planned to have only a few members, has evolved in practice and includes all donors to the ARTF who wish to attend (there are twenty four donors in total, of which thirteen paid in more than US\$5 million in FY2004/05). Currently regular (quarterly) meetings are held with local donors in Kabul and most donors with representation in Kabul attend. Annual meetings are held at a higher level and alongside other major international meetings on Afghanistan.

The recent independent evaluation of the ARTF by Scanteam commended the governance structure, and specifically the functioning of the Management Committee, noting *“The Governance structure is seen as comprehensive yet flexible. MC members experience the MC meetings as increasingly important with discussions leading to several project proposals being rejected or modified.”*³ The evaluation did, however, suggest that minutes of meetings should be shared with GoA and donors to provide further information on the decision-making process. This recommendation is now being followed. The MC has functioned as designed and meets monthly via videoconference. The UN system has been represented by a senior staff member from the UN Assistance Mission to Afghanistan (UNAMA) as well as UNDP.

Experience from Other Multi-Donor Trust Funds

Staff has assessed other Multi-Donor Trust Funds administered by the World Bank including Iraq, Indonesia and Sudan and noted that there are a variety of differing governance structures, designed around the specific objectives of the funds and constraints in their own environments. In some cases, such as the tsunami reconstruction fund for Indonesia, the government is represented in the equivalent of the ARTF's management committee (i.e in a decision making role).

Revised Governance Structure

Staff discussions with the Management Committee and donors to the ARTF noted both the potential advantages and disadvantages of the government being a member of the MC. On the positive side it is seen as a way for enhanced coordination and partnership

² Paragraphs 19 and 20 of the Proposal.

³ Executive Summary of Assessment, Afghanistan Reconstruction Trust Fund, Scanteam, Oslo, March 2005. Available on the internet on www.worldbank.org/af

and also provides an opportunity for further increasing ownership by GoA. On the downside it was noted that there could be a conflict of interest given the decision-making role of the MC, and that participation of GoA may restrict the open and candid discussions that can take place in the MC meetings for example on issues related to fiduciary standards.

After weighing the different options available, the Donor Committee agreed to the following adjustments to the governance structure based on options proposed by the Management Committee:

- The Government will be invited to attend all MC meetings as an observer.
- The MC will retain the right to go into executive session without the observer if they have issues they would prefer not to discuss in the presence of a government representative.
- The donors agreed that government should be invited to at least four ARTF donor meetings a year, hitherto held in Kabul, though they may also wish to hold separate meetings which would not include government participation.

This new approach to the governance structure has been agreed with the government and the donor community and will be effective from the next Management Committee meeting anticipated to take place in November 2005.