

FY1392 UPDATE TO THE ARTF FINANCING STRATEGY

The ARTF Financing Strategy 1391-1393 was endorsed by the ARTF Steering Committee on April 1, 2012, and this remains valid going forward. This FY1392 Update to the ARTF Financing Strategy reviews the evolving context, use of funds in SY1391 and outlines FY1392 activities, including the pipeline and allocations.

1. AN EVOLVING CONTEXT

At the Tokyo Conference in July 2012, the Government of Afghanistan (GoA) and international community agreed on the Tokyo Mutual Accountability Framework (TMAF). The TMAF will provide the framework for cooperation between the GoA and the international community and support to GoA in achieving the longer term objectives of transition and during the following “transformation decade”. GoA and donors are currently working on a set of benchmarks that will operationalize the TMAF and allow the parties to track their respective accomplishments.

The ARTF is one of the mechanisms for meeting the commitments made at the Tokyo Conference. The Administrator will work with GoA and donors to build synergies between TMAF actions and incentives and ARTF financing, and establish linkages where possible. Realization of TMAF outputs depend largely on realization of structural and fiscal reforms that are ongoing including the approval of the Mineral Law and Land law, fiscal reforms such as VAT and deep customs reforms as well as enhancing productivity of the agriculture sector and enabling the space for greater private sector development.

The ARTF External Review 2012 “ARTF at a Cross-Roads: History and the Future” confirmed that the ARTF remains *fit for purpose* and is the “*the vehicle of choice for pooled funding, with low overhead/transaction costs, excellent transparency and high accountability, and provides a well-functioning arena for policy debate and consensus creation.*” The review recommended a number of actions to further strengthen the Fund. In response the World Bank, as the ARTF Administrator, and Ministry of Finance (MoF) shared with donors their respective management responses. The Administrator’s management response welcomed the findings of the External Review and outlined a work program consisting of a number of areas for further work and development. The Management Response was endorsed by the Steering Committee on November 10, 2012. Some of these areas are worth highlighting in the context of the ARTF Financing Strategy:

Supporting National Priority Programs and Moving towards Programmatic/Sector Approaches: While ARTF is 100 percent on-budget and thereby aligned with Government priorities, the ARTF continues to seek to further strengthen alignment with the National Priority Programs (NPPs) for increased government ownership of ARTF resources. A thorough mapping exercise has been undertaken¹ and opportunities for supporting the NPPs will be explored as they arise. Please see annex 2 for a mapping of NPPs and ARTF programs at the project level. The mapping exercise will provide a basis for identifying areas that the ARTF should focus (more) on and to generate further discussions on future priorities for ARTF financing. Please find more on future priorities on page 6. Alignment will, however, be work in progress. In this regard, programmatic approaches should be a future objective of the ARTF. Such a move should be based on realistic analysis of available capacities in the sector and risk willingness of

¹ A first mapping was carried out in November 2012 based on a template agreed to by Ministry of Finance and the international community. It was deemed, however, that a more detailed mapping would benefit discussions on ARTF alignment and support for the NPPs.

donors. The ARTF Administrator will initiate an assessment of the existing potential for sector approaches, building on experiences from health and education in Afghanistan and globally to inform a discussion of possibilities in the near- and medium term. In addition to sector approaches, cross-sectoral initiatives are also being strengthened, including the introduction of Resource Corridors and a jobs delivery platform pulling together ARTF- and IDA-financed projects with interlinkages and synergy effects within the area of job creation.

Sub-national platform: The operational definition used by the World Bank in Afghanistan for sub-national Governance refers to activities within the ARTF or IDA portfolio which are designed to help the GoA with improving budget execution and service delivery at the sub-national level within the governance structures defined by the Constitution of Afghanistan and existing laws. Under this platform two sets of activities have been agreed for financing under the ARTF²:

- i. **O&M Capacity Building/Provincial budgeting:** Capacity to plan and implement development projects and absorb additional financing for O&M at the provincial level is limited. This will include building capacity for setting provincial priorities, budget planning and formulation, development of an asset registry, an asset maintenance policy and O&M guidelines for its provincial departments. But importantly, it will likewise lend support to provincial line departments to build capacity to monitor the stock of assets, plan for asset maintenance and execute the asset maintenance budget in an efficient and transparent manner. Both capacity building and investment financing support will be provided through national programs in education (EQUIP2), health (SEHAT), rural roads (NERAP/ARAP) and agriculture (NHLP). Additional financing will be made available for these projects as needed to support the roll-out of capacity building and financing for development activities led by the provincial level. This already happened in 1391 as part of the additional financing for EQUIP;
- ii. **Operations & Maintenance Facility:** The ARTF Steering Committee agreed to set up an Operations & Maintenance (O&M) Facility to support government financing as they take over responsibility of previously externally funded assets. The O&M Facility will also support the development of a provincial budgeting framework and improving the management of O&M in provinces, and thereby encourage a strengthened O&M culture in line ministries. . In addition to the O&M Facility costs and planning for O&M should be reflected in individual ARTF financed projects to ensure sustainability

Research & Analysis Program: A new Research & Analysis Program (RAP) will be established to finance in-depth area/sector studies, impact evaluations etc. to inform strategic approaches, ensure innovation and a strong focus on results. A concept note will be shared with the Strategy Group in February 2013. Different models and funding arrangements are still being explored and the financial implications for the ARTF are therefore not yet included in the allocation outlined in table 1 below. The estimated annual budget of the RAP will be around US\$5 million.

² Other activities are already ongoing: (i) The Capacity Building for Results Facility (CBR). CBR will support key ministries to clarify and prioritize their functions at sub-national levels, to propose detailed plans for strengthening their civil service capabilities, and to develop detailed province-specific targets for improvements in services and business processes. The CBR will, in return, fund the recruitment of high capacity staff in the selected spending ministries at central and provincial levels over the medium term (2011-2016); (ii) The Incentive Program (IP) is supporting the roll-out of the norm-based budgeting reform program to the Ministry of Education (MoED) by encouraging a norm-based approach to formulating the MoEd's provincial budget allocation for the operating budget.

Results Management Framework: A new Results Management Framework (RMF) will define the parameters for reporting on ARTF results. The RMF is structured around four pillars: (i) Country Level Outcomes; (ii) ARTF Portfolio Outputs and Outcomes; (iii) ARTF Operational Effectiveness; and (iv) ARTF Organizational Effectiveness. An annual “ARTF Scorecard” will report on progress under each of the four pillars. A critical part of the reporting on Pillar II is a new Results Matrix, which was shared with donors in December 2012. The final version will be launched in February 2013. The Results Matrix aggregates progress on key indicators from the ARTF portfolio, including the Recurrent Cost Window, the Incentive Program and projects funded under the Investment Window.

Gender: The ARTF continues to strengthen its focus and results on gender both at the project level in terms of impact on the lives of women in Afghanistan and at the results and reporting level to ensure information and data is more widely shared. As agreed in the Management Response to the ARTF External Review, a new Gender Working Group has been set up. A first meeting was held in December 2012 to discuss and agree on the Terms of Reference. A new Gender Specialist has been added to the World Bank’s gender team to support the portfolio and ensure a strong gender focus in project design and implementation, results management and reporting and the general dialogue. Going forward the gender team will work to further strengthen the ARTF Results Matrix to ensure gender data is included in the indicators and in the ARTF reporting.

2. ARTF MANAGEMENT

Several aspects of ARTF management have progressed over the last year:

- i. **Strengthening the Administrator’s capacity on the ground:** Over the last year the World Bank team in Kabul has been strengthened significantly with both international and national staff. The education, energy, agriculture and urban teams have been reinforced and a new gender specialist has come on board to work across the portfolio.
- ii. **Portfolio Performance:** The World Bank has strengthened its focus on portfolio performance. To improve impact on the ground and enable a more strategic approach to the allocation of resources reviews of portfolio performance are important. In October 2012 the Administrator and Ministry of Finance (MoF) initiated a Portfolio Performance Review (PPR). The review process was kicked off with a series of internal meetings in the World Bank with sector and fiduciary teams to identify bottlenecks and problem areas. Key findings were shared with MoF and follow-up meetings with line ministries were arranged to agree on necessary actions. Some meetings with line ministries remain outstanding to be scheduled in February/March 2013. Several projects are undergoing midterm reviews and restructuring to address blockages and the World Bank’s fiduciary teams are working on actions to address program level issues.
- iii. **Governance Structure:** The revised ARTF Standard Terms and Conditions, which formalized the new governance structure, were approved by donors and effectuated by April 1, 2012. The ARTF Strategy Group was fully functioning and a new terms of reference were approved in June 2012. Following up on the ARTF External Review a new Gender Working Group (GWG) was established in December 2012 and terms of reference agreed.
- iv. **Ministry of Finance:** Ministry of Finance (MoF) has taken an increasingly active role in the management of the ARTF. The Administrator has much more frequent meetings with MoF to discuss strategic issues, the pipeline, project specific questions and supervision missions, NPP linkages and alignment as well as issues related to the general quality of the ARTF portfolio. As stated above a

Portfolio Performance Review was recently undertaken, owned and led by MoF. MoF continues to play a very important and active role on the ARTF Management Committee and has also over the last year taken a growing interest in the discussions taking place in the ARTF Strategy Group.

- v. **Salary scales and PMU migration:** An important step towards greater sustainability of development aid in Afghanistan will be the harmonization of salaries for national consultants hired under donor-funded projects. Beginning the start of Solar Year 1392 on December 21, 2012, all new contracts financed by ARTF projects are following the salary scale agreed with Government under the Capacity Building for Results Project (CBR). By March of 2013, this will be expanded to cover renewals as well. The Administrator is also currently reviewing the allowances and per diems paid across ARTF projects to ensure consistency. Simultaneously the World Bank is investigating how to structure project management units (PMUs) to ensure the transfer of capacity to local/ministry staff for greater sustainability. ARTF donors will be informed of progress.
- vi. **Supervisory Agent:** ARTF management has been strengthened considerably through the contracting of the ARTF Supervisory Agent (SA). The SA is responsible for performing visits to project sites and assessing the quality of infrastructure constructed or under construction. A total of 2800 site visits will be carried out between September 2012 and August 2013. Equally important is the large amount of resources devoted to the SA's interaction with line ministries participating in the program. A triangular interaction is set up between the line ministries, the SA and the World Bank through which findings are discussed and addressed. Frequent technical discussions between the SA and the line ministries take place and support is provided on various infrastructure- and construction-related issues. This serves to strengthen capacity in the line ministries as well as an increased appreciation for project monitoring.

3. RISKS

The risks outlined in the ARTF Financing Strategy 1391-1393 all remain valid. These risks can potentially influence on the delivery of the Financing Strategy:

- i. **Managing expectations:** There is growing pressure on the ARTF to take on an increasingly larger share of the development assistance for Afghanistan, i.e. accept responsibility for the funding and of still more National Priority Programs etc. It is critical that expectations are managed in terms of the ARTF's capacity to continue scaling up its program. The demand for ARTF resources has to match the supply of funding from donors as well as the available implementation capacity and Bank resources to ensure the program is realistic and can meet expectations.
- ii. **Implementation capacity:** Implementation continues to suffer from a number of risks. The absorptive and implementation capacity of line ministries is a key factor in how projects perform and therefore how funds can be allocated. One example is the agriculture sector, a priority sector for both Government and donors. The ARTF agriculture portfolio, however, has to improve its performance before larger scale investments can be considered.
- iii. **Bank resources:** The Bank's capacity to support line ministries in project preparation and implementation and to perform supervision is equally a risk factor that impacts on the pipeline and portfolio. As described above the Bank has strengthened its presence on the ground in Afghanistan over the last year adding new staff and strengthening most teams, including agriculture, energy, education, poverty reduction and economic management, procurement, financial management, IFC, portfolio management etc. Since January 2012 the Bank has increased its professional staff

(technical and management) with 15 new staff. As four staff left during this period the total number rose from 45 to 56. In terms of *facetime*³ the World Bank in Afghanistan provides a total of almost 12000 days annually, compared to the average for fragile states (3000 days) or IDA countries (7500). Afghanistan is thereby number one within the World Bank for hands-on support to and engagement with the client. Facetime in Afghanistan has increased from FY11 to FY12 from about 480 days to almost 600 days per project. Approaching the 2014-elections and through-out the transition period, the Bank will continue assessing its footprint and staff skills mix in Kabul to support the program.

The Bank has also as a result of the increased administration fee of the ARTF from 1.5 % to 2 % been able to scale up the supervision budget available for project teams, resulting in increasing support for line ministries and strengthened focus on results.

- iv. **Donor financing:** Donor pledges, single-or multi-year, are often lacking. This creates a challenge to the cash balance management of the Administrator in trying to meet the agreements outlined in the Financing Strategy. Donor financing needs to match the pipeline as laid out in the Financing Strategy. Donor financing has increased significantly over the last two years where contributions have reached around US\$1 billion per year. There are currently strong indications that donor contributions to the ARTF will maintain this high level and even increase. Predictability of donor contributions is, however, highly dependent on developments that are outside the immediate control of the ARTF, including progress on the agreed benchmarks in the Tokyo Mutual Accountability Framework.

The performance of the portfolio and the delivery of the ARTF Financing Strategy is also likely to influence donors' willingness to continue high levels of contributions to the ARTF. The ARTF therefore needs to ensure a continued focus on effectiveness and delivering results. To allow substantive discussions on effectiveness, the Administrator has strengthened the focus on results reporting. A new ARTF Scorecard will be published annually and feed into a dialogue with Government and donors on results, effectiveness and funding priorities.

Donors are strongly encouraged to provide information on planned estimated contributions on a three year rolling basis to allow for more accuracy in the Administrator's planning.

- v. **Elections:** During the next year the Administrator is expecting and planning for a slowdown in project preparation and implementation associated with the upcoming presidential elections, scheduled for April 2014. The Administrator is therefore planning to have new projects planned for 1392 delivery approved by October/November 2013.
- vi. **Supervision:** The Administrator's ability to supervise the portfolio, and particularly the project sites located in high risk and/or remote areas, is likely to be affected by the Transition. Previously the World Bank team could rely on logistical support from donors located in the provinces. This option is now diminishing. This risk is partly being mitigated by the ARTF Supervisory Agent, which ensures constant monitoring of ARTF projects even in conflict-affected areas and a steady flow of verified data to feed into and enhance the ongoing dialogue with the implementing line ministries. In response to the continuously changing environment the World Bank is working on a new set of guidelines for project supervision..

³ Face-time is a new measure of the Bank's engagement with client countries that aggregates in a single scale multiple forms of engagement including Field staff (both national and international staff), and mission travel (from both HQ and nearby offices).

4. REVIEW OF SY1391 ALLOCATIONS AND PLANNED USE FOR FY1392⁴

At the end of SY1391 a total of US\$787 million had been allocated. SY1391 thereby saw a shortfall of approximately US\$221 million when comparing planned allocations to actuals. Such differences between projected allocations as laid out in the Financing Strategy and the actual allocations are to be expected. The Financing Strategy is not a fixed allocation but rather a tool to provide better predictability in sector allocations and amounts. The actual implementation of the Financing Strategy will depend on capacity in ministries to absorb and implement projects, readiness of projects and donor contributions.

While a total of US\$766 million was planned in allocations for the Investment Window (IW) in SY1391, the actual allocations totalled only US\$566. The Recurrent Cost Window (RCW) saw a similar deficit of allocations from the US\$225 million planned to the \$198 million actually allocated by year's end.

This year's shortfall was mostly due to delays in project preparation with project approvals and allocations moving into FY1392. Also, the Incentive Program (IP) went through its technical review in December 2012, where it was decided to allocate for immediate disbursement only US\$22.5 million out of the US\$50 million SY1391 financing envelope.

As a result of the lower than planned allocations in SY1391, the projected total allocations in FY1392 will increase substantially. The projected total is at US\$1.3 billion, up from US\$894 million projected in the Financing Strategy 1391-1393. This includes US\$958 million for the IW, US\$359 million for the RCW, and finally US\$4 million for the Monitoring and Supervisory Agents. The IW projections include funding for 10 new projects and 2 ongoing. All of these, except one, were already planned and outlined in the Financing Strategy, but some were postponed from SY1391.

The only new project included in the updated allocation plan is the Resource Corridors project. The new project is included in the allocation plan found below in table 2 for US\$70 million. Please find more information below under "Future Priorities".

Compared to the original projections, the increase from US\$894 million to US\$1.3 billion is obviously a significant difference brought about by the postponement of some projects from SY1391 to FY1392 as well as a general increase in the portfolio. The pipeline is, however, in a strong position to deliver as several projects were delayed to better prepare the ground for implementation. Many projects are therefore quite advanced in preparations and should be ready for approval in 1392.

The ARTF cash flow budget in table 1 outlines the actual cash balance development during SY1391 and the projected cash flow for FY1392. Pledged funds total US\$857 million, but most of these are not yet legally committed. The projected level of total contributions will therefore depend entirely on these donor contributions actually coming through.

Please find in the following table 2 outlining the allocations projected for SY1391 in the ARTF Financing Strategy 1391-1393 compared to the actual allocations that took place during SY1392 and the projected allocations for FY1392. Annex 1 presents a complete review of allocations by sector providing more detailed explanations on the amounts outlined in the table.

⁴ In 2012 GoA changed its fiscal year from a solar year (SY – March to March) to a calendar year (FY - December to December). SY1391 therefore only lasted 9 months (March to December).

Table 1: ARTF Cash Flow Budget

Sources of Funds	1391 (Actuals-in million)	End of 1392 (Projected in million)
Carry-over from previous year	\$500.00	\$656.00
Donor Contributions	\$942.00	\$830.34
Total Sources of funds	\$1,442.00	\$1,486.34
<u>Uses of Funds (Commitments):</u>		
Recurrent Cost Window	\$197.50	\$359.50
Investment Window Allocations	\$565.50	\$958.00
Monitoring Agent	\$23.00	\$4.00
Total allocations out of parent account	\$786.00	\$1,321.50
Unallocated Cash balance end of year	\$656.00	\$164.84

Notes: (i) The projected FY1392 total for the Investment Window Projected IW includes US\$255 million that had already been allocated to projects as per February 25, 2013, leaving a balance of US\$883 million for the remainder of the year. (ii) The FY1392 total Recurrent Cost includes a carry-over of US\$27.5 million from SY1391 that was not disbursed under the Incentive Program.

5. Future Priorities

Discussions on future priorities for ARTF funding will take their outset in the NPP mapping, annex 2. Some areas are, however, already arising as particularly relevant for further consideration:

- i. **Agriculture Sector:** Being central to Afghanistan’s economy, agriculture is an important area in need of further financing. The sector accounts for 31 percent of GDP but provides employment to 59 percent of the labor force. As such the ARTF should support this sector. Presently, however, projects in this sector are experiencing significant implementation challenges. The World Bank is undertaking an Agriculture Sector Review, which can help to inform future work in the sector in support of the NPP National Comprehensive Agriculture Production & Market Development Program.
- ii. **Resource Corridors:** The Afghan economy needs sustainable sources of long-term inclusive growth. Resources and agriculture are the only sectors with the potential to drive such growth. Mining sector growth will not be inclusive unless it is leveraged to create broader benefits and growth breaks out of “enclave” investments. The Government of Afghanistan’s resource corridor strategy (building on the National and Regional Resource Corridor NPP)

seeks to achieve this, leveraging the resource sector for transformation – prioritizing public and private investments through the four dimensions of governance, livelihoods, environmental and social impact (referred as “soft” infrastructure), and (“hard”) infrastructure. The World Bank would through this work try to build synergies with the International Finance Cooperation (IFC) to facilitate private sector growth.

The Project Development Objective is to prepare a platform of “hard” and “soft” infrastructure that will enable Afghanistan to derive broader economic benefits from the development of its extractive industries. The project aims to support the accelerated realization of private sector anchor investments in the resource sector, and leverage those investments for broader benefits, through: (i) preparing incremental investments that can create public goods [US\$50 million]; and (ii) investing in soft infrastructure that builds the capabilities of local firms, communities and job-seekers to benefit from the resource sector [US\$20 million]. The support for Resource Corridors could also include support for the mining sector.

- iii. **Rural Water and Sanitation:** Recognizing the value of strengthened water and sanitation in rural areas to both nutrition and poverty, this could be an area deserving of support from the ARTF. The ARTF Administrator has in concurrence with Ministry of Finance and Ministry of Energy and Water decided not to ask for additional financing for the Water Resource Development project (AWARD). New engagement in rural water and sanitation could therefore be explored through different mechanisms.

Table 2: Projected, Actual and Planned Allocations 1391-1393

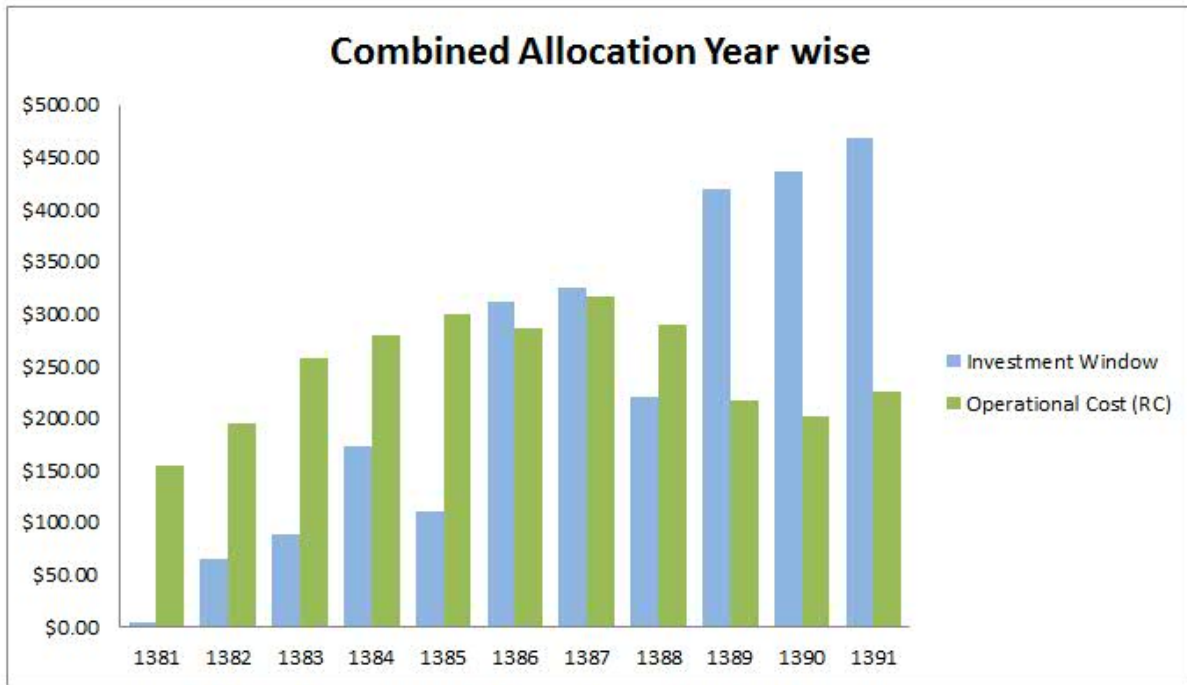
Sector	Project	1391 - Projected	1391 - Actuals	1392 - Planned	1393 - Planned
Agriculture	Irrigation Rehabilitation and Development	\$48	\$48		\$50
	Inputs Supply	\$20	\$0	\$80	
	Horticulture & Livestock		\$50		\$50
	On Farm Water Management			-\$15	
	Strategic Grain Reserves	\$12	\$0	\$18	
Rural Development	NSP III*	\$400	\$150	\$300	\$200
	Rural Enterprise Development	\$16	\$0		
Infrastructure	Power sector	\$20	\$0	\$40	\$150
	Rural Access Roads*	\$125	\$107	\$50	\$100
	Resource Corridors			\$70	
	Urban Sector	\$130	\$0	\$90	
Human Development	Basic Education	\$75	\$148	\$125	
	Higher Education	\$10	\$0	\$50	\$50
	Skills & TVET (includes prep grant)		\$10	\$30	
	Health			\$120	
Governance	Capacity Building for Results				\$100
	Justice	\$30	\$40		
	Public Finance Management	\$13	\$13		\$26
	Provincial budgeting/O&M pilot	\$20			
	Total Investment Window Financing Need	\$769	\$566	\$958	\$726
	Recurrent Cost Base	\$175	\$175	\$150	\$125
	Incentive Program	\$50	\$23	\$177	\$175
	O&M Facility			\$32	\$100
	Total Recurrent Cost Financing Need	\$225	\$198	\$359	\$400
	Monitoring Agents - IW and RC	\$14	\$23	\$4	\$4
	Total ARTF Financing Need	\$1,008	\$787	\$1,321	\$1,130

Notes: (i) All amounts and delivery dates listed in the draft Financing Strategy are indicative and will depend on capacity in line ministries as well as donor contributions; (ii) Marked blue cells indicate priority scale up areas identified by the Ministry of Finance; (iii) * A \$300 million allocation is included for NSP of which \$250 million was delayed from 1391 to 1392 due to an outstanding audit. These funds have now been transferred; (iv) *An additional \$50 million is being allocated to rural roads subject to its ability to commit. Should NSP run out of funds in FY1392, the unallocated/undisbursed funds from rural roads will go to NSP; (v) SY1393 totals are heavily dependent on a number of very large infrastructure projects which could slide into SY1394; and (vi) An administration fee of 2 % is charged at the time donor contributions are received by the Bank and released into the Bank's budget only based on project disbursement.

Annex 1: Allocations for SY1391 and FY1392

Figure 1 below shows how the relative allocations to the IW and RCW have changed over time. The IW has grown in scope and is now much larger than the RCW, a trend that continues. Moreover, the balance within the Recurrent Cost Window is also shifting in favor of incentive-tied funds like the Incentive Program and the O&M Facility in line with one of the objectives outlined in the Tokyo Mutual Accountability Framework.

Figure 1: Annual Allocations for the IW versus the RCW



Agriculture

SY1391: Two projects in the agriculture sector were delivered for a total of US\$98 million: Irrigation Restoration and Rehabilitation Project (IRDP) (\$48 million) and the National Horticulture and Livestock⁵ (NHLP) (\$50 million). This should be compared to a planned allocation of US\$80 million for three projects. NHLP was originally planned for delivery in FY1392 but was moved forward and delivered already in SY1391. However, two projects planned for SY1391 delivery were delayed: The Inputs Supply preparation grant progressed more slowly than expected and resultingly the project was delayed. Grain Reserves was delayed as more time was needed to develop the institutional arrangements.

FY1392: As a result of the delays in SY1391 the Inputs Supply Development Project and Grain Reserves will be delivered in FY1392. While the Inputs Supply Development Project was planned for a total of US\$79 million, only a first tranche of US\$20 million was originally intended as a first allocation. The project will, however, now need the entire amount up front due to signing of large contracts and the total project amount has increased to US\$80 million. The Grain Reserves Project has increased in overall

⁵ The full value of the project is \$100 million. The second tranche of \$50 million will be allocated subject to progress and disbursement rates.

value and will now be delivered for a total value of US\$18 million rather than the US\$12 million initially planned. The On-Farm Water Management Project approved for US\$41 million in SY1390 (March 2011) has seen very low disbursement and limited progress on implementation. A mid-term review of the project is ongoing, which is expected to result in a restructuring to simplify the design and project objectives. As a result US\$15 million will most likely be cancelled leaving the project value at US\$26 million.

Rural Development

SY1391: Two ongoing projects were projected to need further financing in SY1391 for a total value of US\$266 million: Rural Enterprise Development (AREDP) (\$16 million) and the National Solidarity Program III (NSP) (\$250 million). Actual allocations totaled only US\$150 million for NSP. This includes the carry-over from SY1390 of US\$150 million⁶, while the projected SY1391 allocation of US\$250 million was slightly delayed till January 2013 (FY1392) as a result of an overdue audit. The allocation of \$16 million for AREDP was initially postponed due to low disbursements. Following a mid-term review a the project will be restructured to simplify the design and improve progress and disbursement rates. The additional funds will not be needed and have therefore been cancelled in the allocation plan.

FY1392: A total of US\$1.1 billion in ARTF financing for NSP was agreed between the Government and the World Bank in the NSP Project Paper of which a total of US\$750 million has already been allocated, leaving a financing gap of US\$350 million to be financed before the project closing in September 2015. FY1392 includes a total allocation of US\$300 million for NSP. This includes an allocation of US\$250 million delayed from SY1391 due to an outstanding audit. This US\$250 million has been transferred already.

Infrastructure

SY1391: A total of US\$275 million was planned for power (US\$20 million), rural access roads (US\$125 million) and urban projects (US\$130 million) in SY1391. At the end of the year US\$107 million was actually allocated, a first tranche for the new Rural Access Roads (ARAP). The allocation for rural access roads was reduced due to a reallocation of funds between IDA and ARTF⁷.

The allocations for the power portfolio were postponed till FY1392 as a result of an assessment of the current portfolio and future needs. Both the urban projects planned for SY1391 were postponed till FY1392 as preparations took more time than initially anticipated

FY1392: Following the recent assessment of the power portfolio, a restructuring is taking place of an ongoing project, while two new projects will be delivered in FY1392: 1) Naghlu Rehabilitation II (US\$35 million); and 2) DABS TA (US\$5 million). A new allocation of US\$50 million has been added for rural roads, ARAP, in 1392. Should the project not be able to absorb this financing, the US\$50 million will be allocated to NSP.

⁶ Due to the low cash balance in the ARTF following the Kabul Bank crisis in SY1390 only US\$100 million of the SY1390 NSP allocation of US\$250 million for NSP was actually allocated in SY1390. By July 2012 the project was in urgent need of the remaining US\$150 million and it was allocated.

⁷ A second tranche will be allocated subject to progress and disbursement rates.

In urban, two projects are now planned for FY1392: The Kabul Municipal Development Project (US\$50 million)⁸ and the Kabul Urban Roads Improvement II (US\$60 million). The ongoing project Water Resource Development TA, implemented through Ministry of Energy and Water, will close down as expected on March 31, 2013. Finally, the infrastructure Sector includes a new project, Resource Corridors for US\$70 million.

Human Development

SY1391: The Human Development sector has seen significant changes. A total of US\$85 million was planned for 1391, including US\$75 million for Education Quality Improvement Project II (EQUIP II) and US\$10 million as a tentative allocation for higher education. However, SY1391 saw a total allocation of US\$158 million for human development, most of this for EQUIP II: It was agreed with Ministry of Finance to scale up the additional financing for EQUIP II and extend the project till September 2014 to ensure that the preparation of a third phase of basic education takes into consideration the changing context in Afghanistan during and after Transition. The additional financing was therefore scaled up to US\$250 million, divided on two tranches, with a first tranche of US\$125 million allocated in SY1391.

The additional financing included also funding over two years for provincial budgeting (see page 2 for more detailed information). The financing for this component of EQUIP II was transferred over from the tentative allocation included under Governance.

The planned tranche of US\$10 million for higher education was cancelled as it was decided to prepare instead a new higher education project that better corresponds to current needs (the current project was prepared in 2007).

Skills Development received a total of US\$9.5 million consisting of US\$9 million as second tranche for the ongoing first phase of the Afghanistan Skills Development Project (ASDP), a carry-over from SY1390, and US\$500,000 for a preparation grant for the planned second phase of ASDP to start in FY1392.

FY1392: Four projects are up for financing in the human development sector in FY1392 for a total of US\$325 million: EQUIP II will receive a second tranche in additional financing of US\$125 million. A new second phase of higher education is expected to be ready for financing by the end of FY1392 for a total value of US\$50 million. This amount could potentially be broken into tranches. The second phase of ASDP is expected to be approved for IDA financing of US\$50 million in March 2013, while another component should be ready for ARTF financing for US\$30 million towards the end of FY1392. Finally, the next phase of the basic health package, SEHAT, will be ready by the time the current project, SHARP, closes down in September 2013. The project will receive a first tranche of US\$120 million in ARTF financing. A second tranche will be made available subject to progress and disbursements.

Governance

SY1391: Under the Governance sector total allocations for US\$63 million were planned for three projects/programs: US\$13 million for the Public Financial Management Project II (PFM II), US\$30 million for the second phase of the Justice Service Delivery Project (JSDP II) and a tentative allocation of US\$20 million for provincial budgeting. A total of US\$53 million was allocated: US\$13 million for PFM II and

⁸ The total project value is US\$100 million. A second tranche of US\$50 million will be allocated subject to progress and disbursement rates.

US\$40 million as a first tranche for the JSDP II⁹. The tentative allocation for provincial budgeting was built into the EQUIP II additional financing (See Human Development).

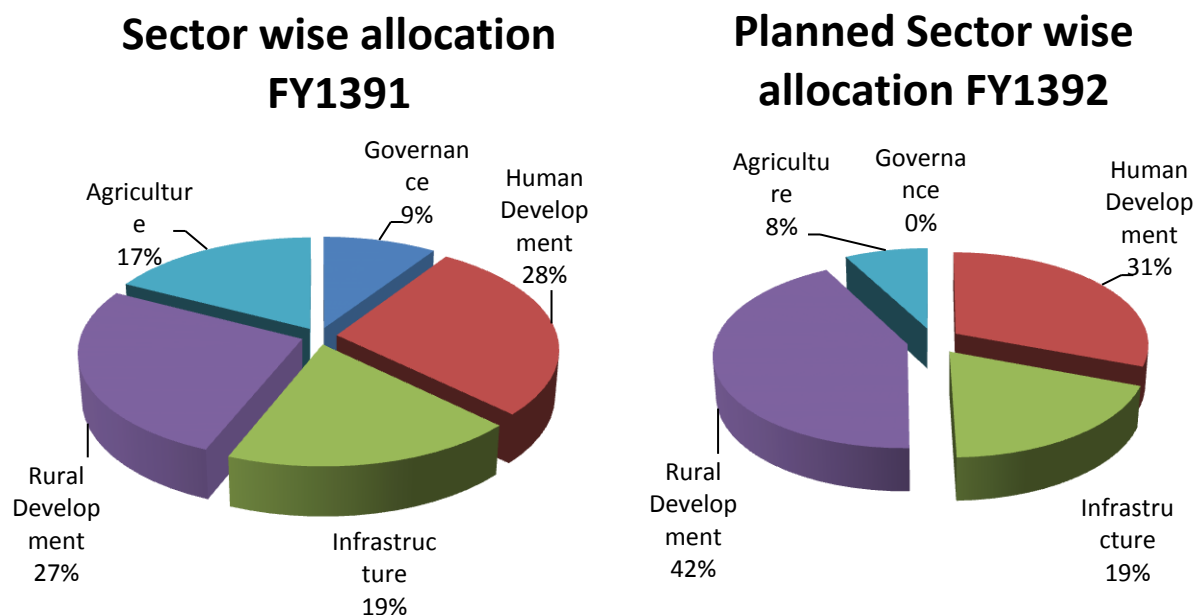
FY1392: In FY1392 no project is in need of new financing in the governance sector. The Capacity Building for Results Program (CBR) was expected to need financing, but due to slower than expected progress, new financing has been postponed till 1393.

Recurrent Cost Financing

SY1391: The Financing Strategy projected a total allocation under the RCW of \$225 million in 1391, including US\$175 million for Recurrent Cost base financing and US\$50 million for the Incentive Program (IP). The US\$175 million in baseline financing was allocated as planned. As for the IP the technical review in December 2012 decided that only US\$22.5 million of the US\$50 million allocation should be disbursed in SY1391, while the remainder of the funds should carry over into FY1392 to be disbursed subject to further technical reviews of IP benchmarks.

FY1392: A total allocation of US\$300 million for FY1392 was outlined in the 1391-1393 Financing Strategy for the RCW, including US\$150 million for baseline financing and US\$150 million for the IP. The carry-over of US\$27.5 million as described above has been added to the IP financing envelope for FY1392. As decided by the Steering Committee in November 2012, an O&M Facility will be established as a new funding modality under the RCW in FY1392. A total of US\$32 million will be allocated to O&M in FY1392¹⁰. This results in a total RCW envelope for FY1392 of US\$359 million.

Figure 2: Allocations by Sector



⁹ The full value of the project is US\$85 million, but only a first tranche of US\$40 million was allocated in SY1391, while the remainder will be allocated subject to progress and disbursement rates.

¹⁰ As more line ministries are included in the O&M Facility this could increase to \$100 million in FY1393.

Monitoring and Supervisory Agent

SY1391/FY1392: An allocation of US\$14 million was planned for SY1391. This increased to US\$23 million as a two-year contract was signed for a second phase of the Supervisory Agent project. In 1392 the financing need will therefore be reduced as only about \$4 million will be needed to finance the Recurrent Cost Monitoring Agent.

Annex 2: ARTF/IDA NPP Mapping

CLUSTER/NPP	Project Name	Board/MC Date	Closing Date	IDA total	ARTF Amt.	Pipeline Financing	Project Total	Project Convergence with NPP*	NPP Total Convergence	Remarks
1. Agriculture and Rural Development cluster										
1.1 National Water and Natural Resources Development	Irrigation Restoration and Development Project	04/28/11	12/31/17	97.8	48.4		146.2	M	M	
	ARTF-Water Resource Development TA	03/23/09	03/31/13		5.5		5.5	L		
	ARTF - On-Farm Water Management	03/16/11	06/30/14		41.0		41.0	L		
1.2 National Comprehensive Agriculture Production & Market Development Program	AF Rural Enterprise Development Program	03/09/10	01/01/15	30.0	16.0	16.0	62.0	L	M	
	National Hort. & Livestock ARTF	12/12/12			50.0	50.0	100.0	M		
	PIPELINE: Improving Agricultural Inputs System					79.0	79.0	L		
1.3 National Rural Access Program	National Emergency Rural Access Project	12/13/07	12/31/13	152.0	80.0		232.0	H	H	
	Afghanistan Rural Access Project (ARAP)	06/26/12	03/31/18	125.0	107.0	100.0	332.0	H		
1.4 National Strengthening of Local Institutions	National Solidarity Program III	06/29/10	09/30/15	40.0	750.0	710.0	1500.0	H	H	
2. Governance Cluster										
2.1 Financial and Economic Reforms	Financial Sector Rapid Response Project (Modernization of national Payment System)	08/23/11	06/30/14	19.0			19.0	L	M	
	Public Financial Management II	06/29/11	12/31/14		73		73.0	M		
2.3 Efficient and Effective Government	ARTF - Capacity Building for Results Facility	01/21/12	12/31/17		100.0	250.0	350.0	TBD		NPP not yet finalized.
2.5 Law and Justice for All	ARTF - 2nd Judicial Reform Project	05/31/12	06/01/17		40.0	45.0	85.0	TBD		NPP not yet finalized.
3. Human Resource Development Cluster										
3.1 Sustainable Decent Work through Skills Dev. and employment Policies for Job-Rich Growth	Skills Development	01/31/08	06/30/14	20.0	18.0	80	118.0	M	M	ASDP II under development
3.2 Education for All	EQUIP II	04/14/09	08/15/14		283.0	125	408.0	H	H	
3.3 Expanding Opportunities for Higher Education	Strengthening Higher Education Program	05/19/05	06/30/13	60.0	5.0	50	115.0	M	M	SHEP II under development
3.5 Health for All Afghans	Strengthening Health Activities for Rural Poor	03/24/09	09/30/13	79.0	46.0	370	495.0	H	H	SEHAT under development

4. Infrastructure Development Cluster												
4.1 National-Regional Resource Corridor Program (NRRCP)		Resource Corridors				70		TBD		TBD		
4.2 National Extractive Industry Excellence Program (NEIEP)		Sustainable Devt of Natural Resources II		06/20/06 12/31/12		40.0		40.0		21.5	21.5	
		Sustainable Devt of Natural Resources II		05/31/11 06/30/16		52.0		52.0				
4.3 National Energy Supply Program		Emergency Power Rehabilitation Project		06/22/04 03/31/13		105.0		20.0		NA		NA
		ARTF-Kabul-Aybak MSharif Power		12/26/07 03/31/13		57.0		57.0				
		ARTF - Power System Development Project		03/19/09 07/31/13		60.0		60.0				
		Pipeline financing for Power				40.0		40.0				
4.4 Urban Management Support Program (UMSP)		Urban Water Sector		05/25/06 06/30/14		17.5		17.5		TBD		Project at concept note stage
		Pipeline: Kabul Municipal Project - Kabul Municipality				100		100.0				
		Pipeline: Kabul Urban Roads Improvement II				60		60.0				
		Pipeline: Afghanistan Urban and Municipal Management Project				50		50.0				
5. Private Sector Development Cluster												
5.1 Integrated Trade and SME Support Facility (ISSF)		AF Financial Sector Strengthening		04/30/09 06/30/14		8.0		8.0		NA		41.25
		Financial Sector Rapid Response Project		08/23/11 06/30/14		19.0		19.0				
		New Market Development		05/03/11 02/29/16		22.0		22.0				
5.2 E-Afghanistan		ICT Sector Development Project		04/26/11 06/30/16		50.0		50.0		35		35

* L = Low, M = Medium, H = High

Annex 3

CONCEPT NOTE - ARTF RESEARCH AND ANALYSIS PROGRAM

Background: Responding to the ARTF External Review 2012, the ARTF Administrator, Ministry of Finance and ARTF donors agreed that a new ARTF research program should be established to strengthen analysis and research and inform the ARTF's strategic focus and work. The ARTF Steering Committee agreed that a concept note should be developed and shared with the Strategy Group for discussion and subsequently with the Steering Committee for final endorsement.

The following concept note outlines the proposed objectives, scope and implementation arrangements for the ARTF Research and Analysis Program (RAP).

Objective: The objective of the proposed ARTF Research and Analysis Program (RAP) is to facilitate and promote evidence-based policy-research and knowledge consolidation through project-based and selected sector-wide/thematic research. All in support of the ongoing and planned work funded under the ARTF as outlined in the ARTF Financing Strategy. The aim is to incorporate evidence based knowledge into policy-making and project design to help the Government and donors improve the delivery of assistance and services to the citizens of Afghanistan, particularly as financed through the ARTF. The World Bank, the Government, and donors already support applied research. The RAP will enable research endeavors to be scaled up, and to be applied, monitored and utilized more systematically. Recognizing that research is often constrained not only by finances but by time, knowledge, and focus, the RAP will provide practical support to project teams on research design and implementation. When possible the RAP will work through Afghan research institutions to build their capacity and ensure buy-in. Finally, the RAP will provide a platform for collaborative engagement and enhanced dialogue between policy-makers, project administrators and researchers. Based on the agreed work program of the RAP, an approach will be defined to allow for the optimal facilitation of collaboration for each research project.

Scope: The RAP will cover two kinds of activities: (i) ARTF project-based research, including impact evaluations and improvements in M&E, and (ii) selected sector-wide/cross-sectoral studies. Only a small number - one or two per annum - of sector-wide/cross-sectoral studies are foreseen compared to project-based research. Funded activities will need to follow a clear set of criteria that ensure that the research and analysis is in support of ARTF projects and work program and fully aligned and in support of the ARTF Financing Strategy¹¹. Proposed activities could also serve as important input into the World Bank's Interim Strategy preparations process. The RAP will not be financing activities that are traditionally financed directly through investment projects, i.e. capacity building of Government's M&E systems.

All activities financed under the RAP would be executed by the ARTF Administrator, the World Bank. As such funds under the RAP will be off-budget, but 100 percent aligned with priorities of the Government.

¹¹ A clear lesson coming out of the AusAID supported MDTF "Afghanistan Technical Assistance to Strengthen Service Delivery at Community Level" is that analytical work should be central to and clearly aligned with a financing/country strategy.

Funding Levels and Sources: Based on identified research and analysis needs of ARTF projects \$5 million per annum is the tentative budget for the Research and Analytical Program, excluding work funded directly through projects¹². We propose that the RAP draws from three existing funding sources¹³: (i) ARTF fee income; (ii) a multi-donor trust fund (evolving from the existing AusAID supported MDTF “Afghanistan Technical Assistance to Strengthen Service Delivery at Community Level: Post-Conflict Development in Afghanistan”); and (iii) analytic work funded through individual ARTF-financed projects. The Administrator proposes that the World Bank from ARTF fee income increases its analytic budget for project, sector and thematic studies to the order of \$2-3 million per annum and that donors contribute through the Afghanistan Technical Assistance to Strengthen Service Delivery at Community Level: Post-Conflict Development in Afghanistan¹⁴ around the same level, e.g. totaling \$2-3 million per annum from donor contributions (amounting to about 0.2-0.3% of their ARTF contributions). Depending on the exact nature of the work, it is envisaged that most analytic activities would be in the range of \$250,000 to \$500,000 per year (multi-year activities could cost \$1-2 million in total).

Management: The RAP would be managed within the current ARTF governance structure and the existing ARTF Secretariat. At the technical level, the RAP would be supported by a full-time IE Specialist and a local focal point, in charge of day-to-day management of the activities. The IE Specialist would be based within the Development and Impact Evaluation (DIME) unit of the World Bank in Washington DC and be closely involved in the development and quality control of the analytical work. This is the model that is generally used within the World Bank when implementing larger-scale research programs. The close connection to the World Bank DIME department will provide the IE with a sound network of practitioners of impact evaluation and other types of analytical activities. As the program develops over time, staffing arrangements can be further discussed.

The ARTF Administrator would propose and discuss the annual work program in consultation with the Government within the context of the Financing Strategy to ensure that the analytical work is aligned with the ARTF portfolio. The ARTF Strategy Group would review the overall program. The Steering Committee would be asked to endorse the program. The ARTF Administrator would propose prioritization of activities within the budget based on timeliness and relevance of the analytic work to the ARTF portfolio, the importance of coordination for the impact, and its impact on poverty reduction, growth and jobs. The main discussion of the RAP work program would take place annually during the Financing Strategy review. Recognizing that the requirement for analytical work may arise as project preparation progresses and needs are identified, the ARTF Administrator would provide updates to the Strategy Group every six months.

The Financing Strategy would include a section outlining the general scope of the research work program, including already identified analytical work. It would also include a financing envelope that could be tapped into during the year as needs arise.

¹² The exact budget would be agreed based on an assessment of needs and demand and availability of funds.

¹³ Due to the current set-up of the ARTF as agreed in the establishing document of the ARTF (“Afghanistan Reconstruction Trust Fund”, March 2002) funds cannot easily be channelled directly to World Bank-executed activities like research and analysis.

¹⁴ The existing trust fund “Afghanistan Technical Assistance to Strengthen Service Delivery at Community Level” was established in 2010 with financing from AusAID to fund select research and analysis, i.e. Resource Corridors and Transition Economics. Though it is a multi-donor trust fund, only AusAID has so far contributed funds. While this trust fund would be repositioned to support the research and analysis work program of the ARTF, ongoing activities funded under the trust fund would continue until finalized.

Government Role: Government, represented by Ministry of Finance (MoF), would be closely involved in the selection of priority research and analytical work for financing under the RAP in the same way they are currently engaged in the development of the ARTF Financing Strategy. MoF can propose to the ARTF Administrator pieces of analytical work and MoF will be consulted on any suggestions made by the Administrator or donors on a work program for financing and implementation under the RAP. All work financed under the RAP would be 100 percent aligned with Government priorities and the ARTF Financing Strategy. Line ministries would be included in the prioritization and development process of new work where relevant.

Work Program and Donor Engagement: The RAP will help strengthening the ARTF’s analytical and research program by:

- Providing resources to conduct high-quality analysis and research.
- Providing opportunities for donors to engage in the World Bank’s analytical work program through systematic engagement in consultations and quality review processes, as well as through presentations to the ARTF Strategy Group. The annual work program would include indicative timelines for consultation meetings and review processes.
- Systematic and mandatory assessment of research and IE opportunities at the project inception stage, supported by the IE specialist and the World Bank’s Development Economics Research Group. This would help project teams to identify research and IE opportunities and provide guidance and management support for their implementation.

Implementation: All analytical and research activities would be World Bank executed according to standard World Bank policies and processes. This includes a concept note review and decision meeting with identified peer reviewers from within and outside the organization. Government and relevant donors would be invited to participate in the quality control process at these entry points. Regular informal consultations with the authorities and donors would be organized at different stages of the work (e.g. prior to review meeting, presentation of interim results etc.). Identified activities would utilize both national and international researchers, as appropriate. Especially with data-intensive studies, the team will actively seek the support of local Afghan research institution and survey firms. “Twinning” arrangements with national research organizations would be considered whenever possible to build and strengthen Afghan capacity and to ensure Afghan ownership.

The IE specialist would provide hands-on support to task teams. The findings of the research and analytical work would inform the ARTF Results Management Framework. The World Bank has built-up significant experience from its research and analytical work in Afghanistan and the lessons thus learned would inform the design and anticipated timelines of the proposed activities.

Reporting and Dissemination: It is important to recognize that the implementation of research and analytical work, such as impact evaluations, take time to generate final results. Donors will be updated on progress and intermediary results on a regular basis. Outputs would be made available in full to interested stakeholders. A web-based system would allow donors to track outputs and monitor performance. The ARTF Administrator would also synthesize and contextualize findings for application by policy-makers and project managers in

programmatic budgeting and project design. In addition, the ARTF Administrator would deliver regular briefings to policy-makers, project managers and donors to inform how the evidence could facilitate policy-making and project-design and apprise of relevant findings from completed studies. In particular, ARTF Administrator would disseminate findings and recommendations through web- and paper-based publication of policy note(s) and meetings with relevant GoA representatives, local research organizations, governmental and non-governmental project administrators, and task-team leaders with World Bank and other donor agencies. A dissemination strategy and budget would be part of each analytical work from the conception phase and include dissemination in relevant local languages.

Annex 1: Projected Spending over time

Annex 2: ARTF Governance Structure

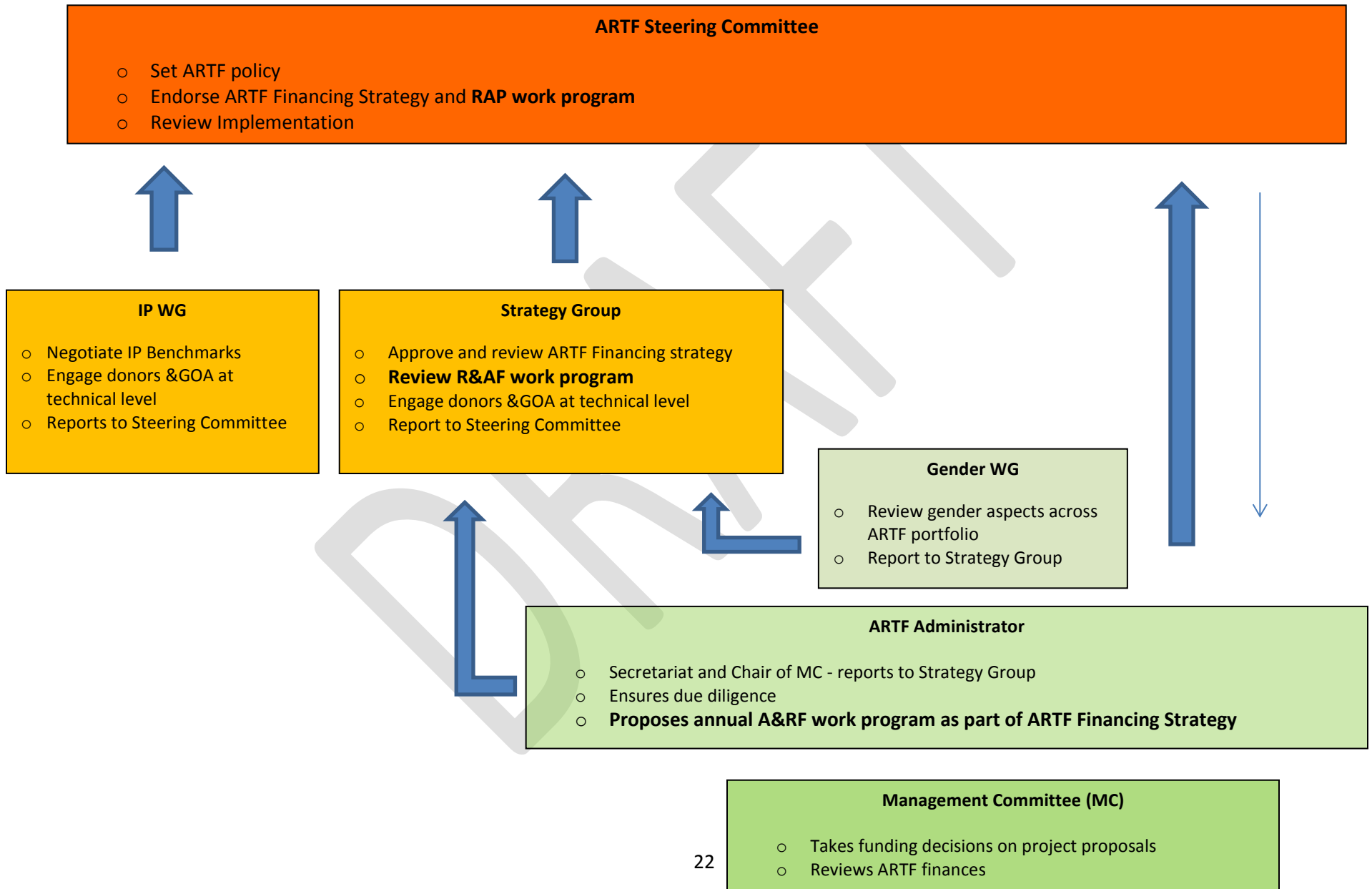
Annex 3: ARTF Research and Analysis Program Process Flow

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Annex A
Projected Spending over time

	FY13	FY14	FY15
	- in USD -		
Sectoral Studies			
Agricultural Sector Review	400.000	400.000	
Sub-National Governance and Service Delivery	400.000	400.000	200.000
Poverty, Policy & Evidence	200.000	200.000	200.000
Sectoral A		400.000	400.000
Sectoral B			400.000
Project Evaluations			
NSP	300.000	300.000	300.000
Project A		300.000	300.000
Project B		300.000	300.000
Project C		300.000	300.000
Project D		300.000	300.000
Project E		300.000	300.000
Project F		300.000	300.000
Project G			300.000
Project H			300.000
Project I			300.000
Project J			300.000
Total	1,300.000	3,200.000	4,700.000

Annex B - ARTF Governance Structure



**Annex 3
ARTF Research and Analysis Program
Process Flow**

