



Afghanistan Reconstruction Trust Fund

Administrator's Report
5 June, 2008



Agenda and Objectives

1. ARTF Financial Report
 - Assessing the trend of ARTF finances
 - Portfolio summary
 - Outlook

2. Assessing the development impact of ARTF
 - Public finance management & fiduciary framework
 - Development investments

3. Future directions
 - Budgets
 - Sector programming & ANDS
 - Policy dialogue

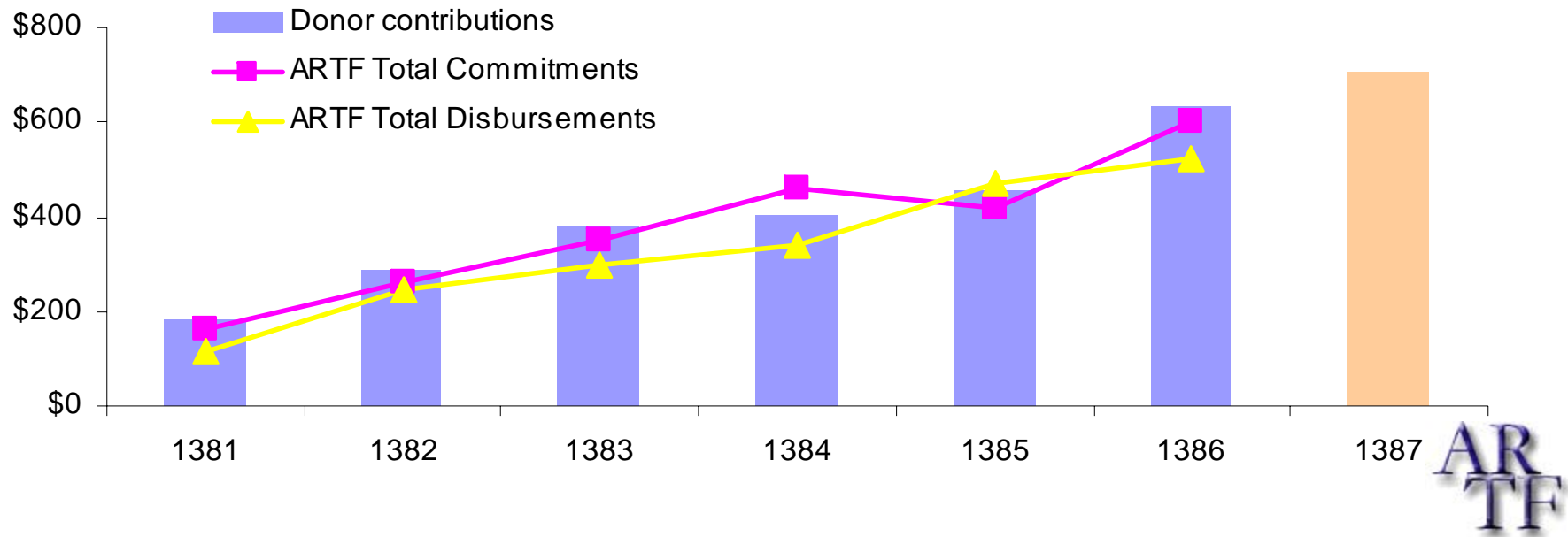


Developments in 1386

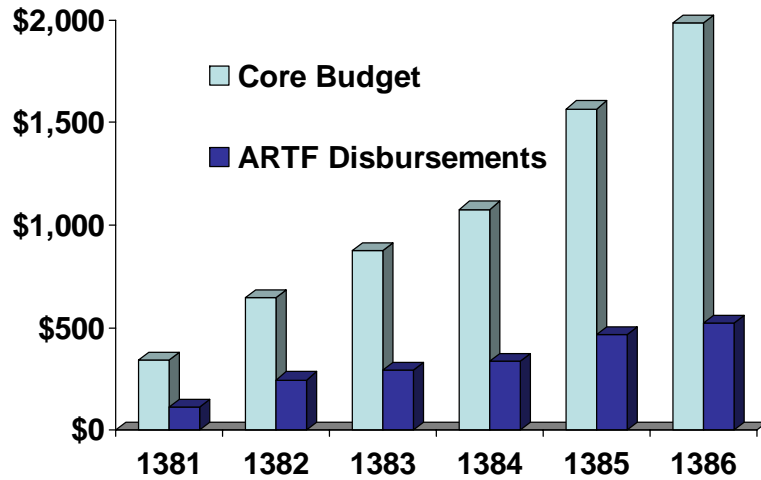
- 17 donors contribute \$634m (40% increase)
 - Spain joins as new donor
- Commitments scale up by 44% to \$600m
 - Disbursements remain strong at 75% of commitments
- ARTF Justice Project prepared following Rome conference
 - Explicit use of ARTF as sector coordination mechanism
- ARTF Management Capacity Program initiated
 - Explicit use of ARTF as pooling for capacity building across government
- Performance Assessment Matrix (PAM)
 - ARTF transitioning towards greater policy mechanism
- Decision taken to extend ARTF through June 2020
- Second independent evaluation

ARTF Financial Profile

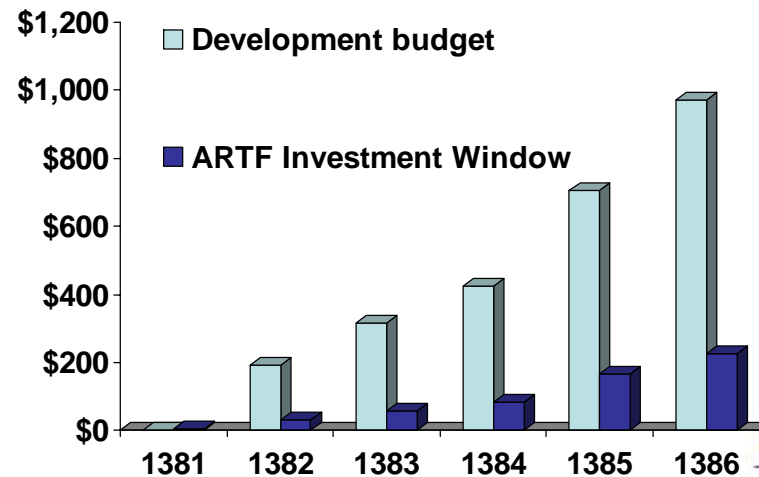
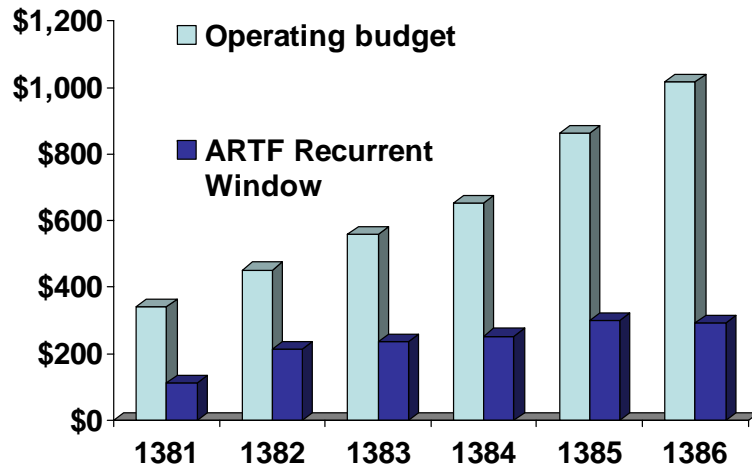
- Donor contributions increasing year on year
- ...enabling scale up in active investment portfolio
- Preferred contributions rising
 - 27% in 1384, 30% in 1385 and 43% in 1386



ARTF & the Core Budget



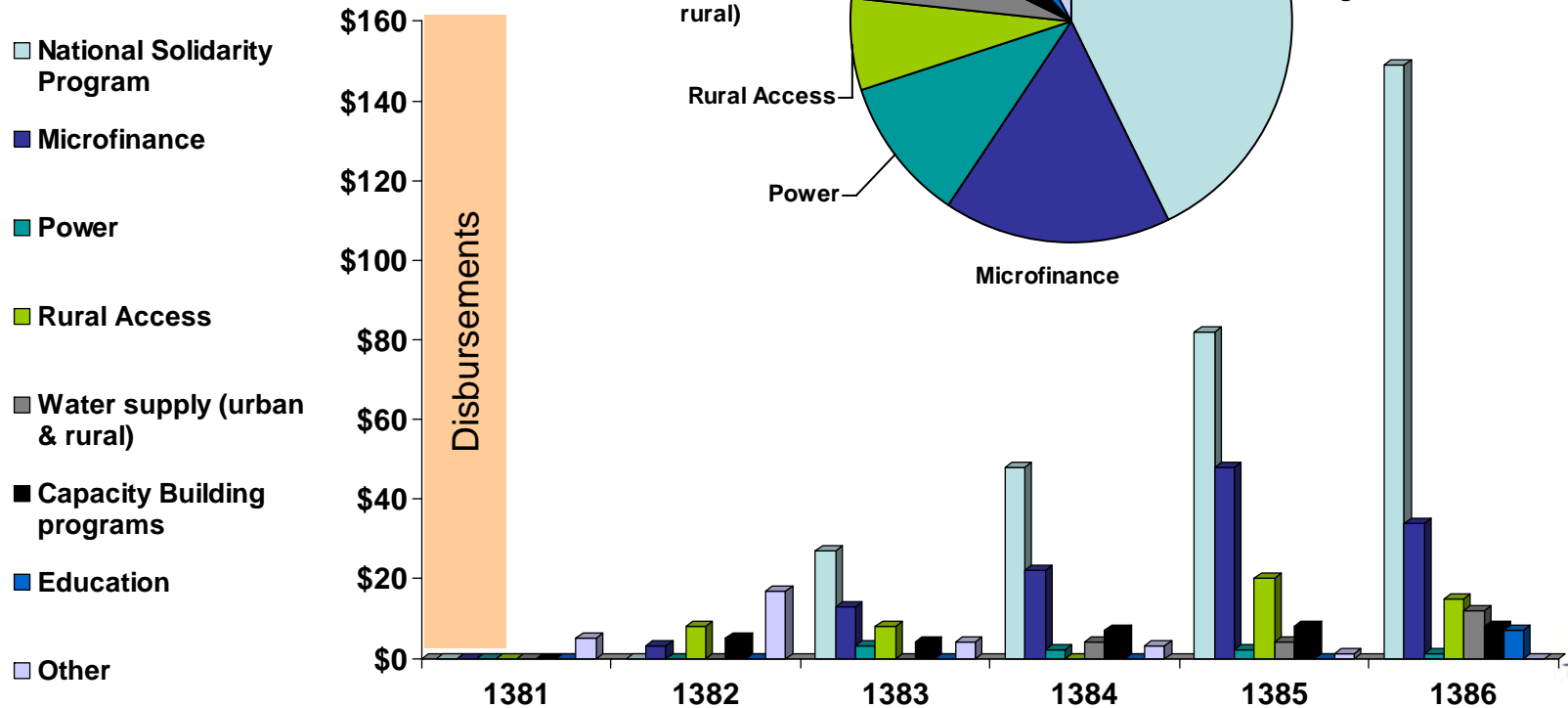
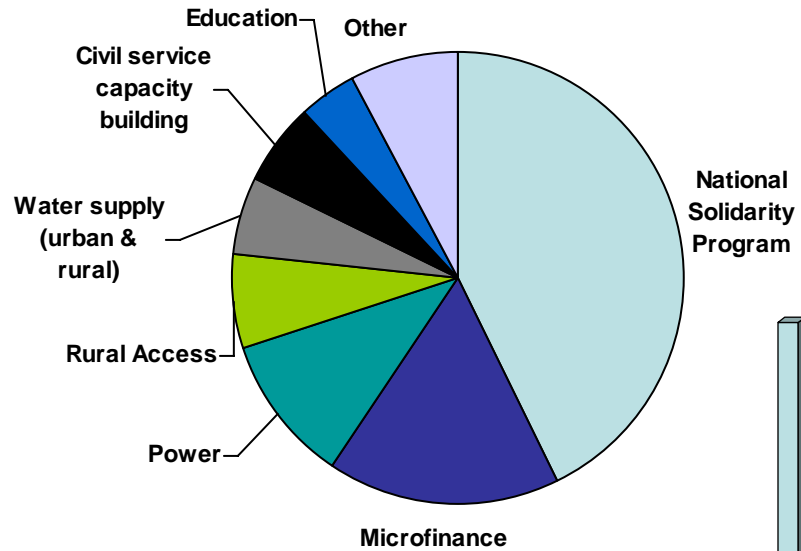
- ARTF supports the Core Budget expenditures
- Last year, ARTF = 30% of operating and 23% of development budget
- Decreasing share of the operating budget – but steady share of the development budget



ARTF Investment Portfolio

- National programs
- Rural development
- Strong disbursements

Commitments to date



Financial Status & Outlook

- ARTF cash position is strong. Set to meet the plan for 1387.

	1385	1386
Sources of funds		
Donor contributions	454	635
Investment income (net of fee)	6	19
Cash carried over	22	66
Total	482	720
Uses of funds (Commitments approved by MC)		
<i>Recurrent window allocations</i>	300	291
<i>Investment window allocations</i>	112	311
<i>of which:</i>		
Rural development	107	217
Infrastructure	0	57
TA & Capacity Development	5	37
Fee committed to Monitoring Agent	7	4
Unallocated Cash Balance	63	115

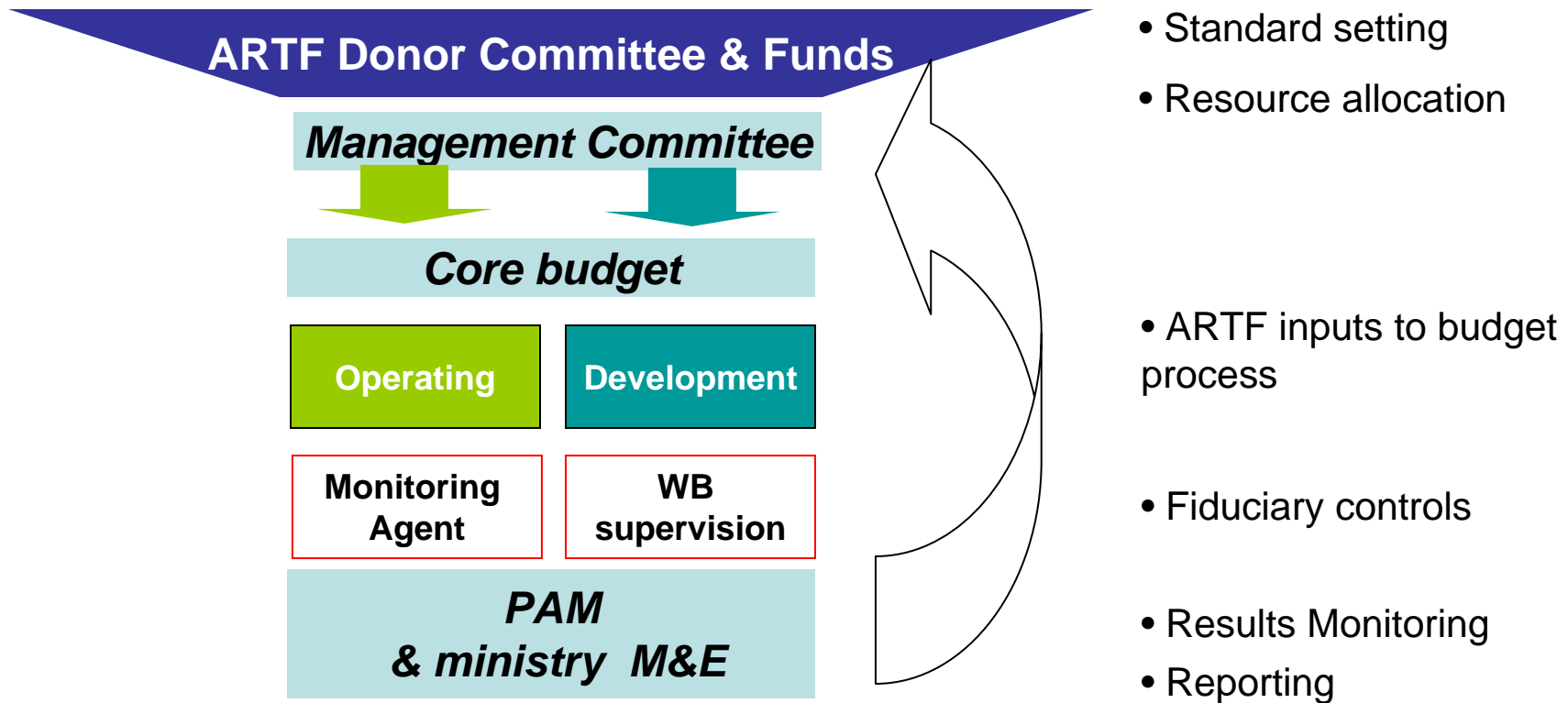
	1387
706 ← Curent pledges	706
15	15
115	115
836	836
276 ← Investments increase further	276
433 ←	433
292	292
65	65
76	76
4	4
124 ← ...and cash balance remains strong.	124

ARTF Results - overview

- ARTF has a direct impact on:
 - public finance management
 - public service delivery through priority programs
- ARTF enhances the effectiveness of aid:
 - reduces transaction costs for both government and donors
 - predictable financing for core budget
 - Supports donor coordination
- ARTF is positioned to sharpen mutual accountability:
 - transparent financial interface with GoA
 - Performance Assessment Matrix records effectiveness of PFM, PAR, health, education & donor behaviour

ARTF & PFM

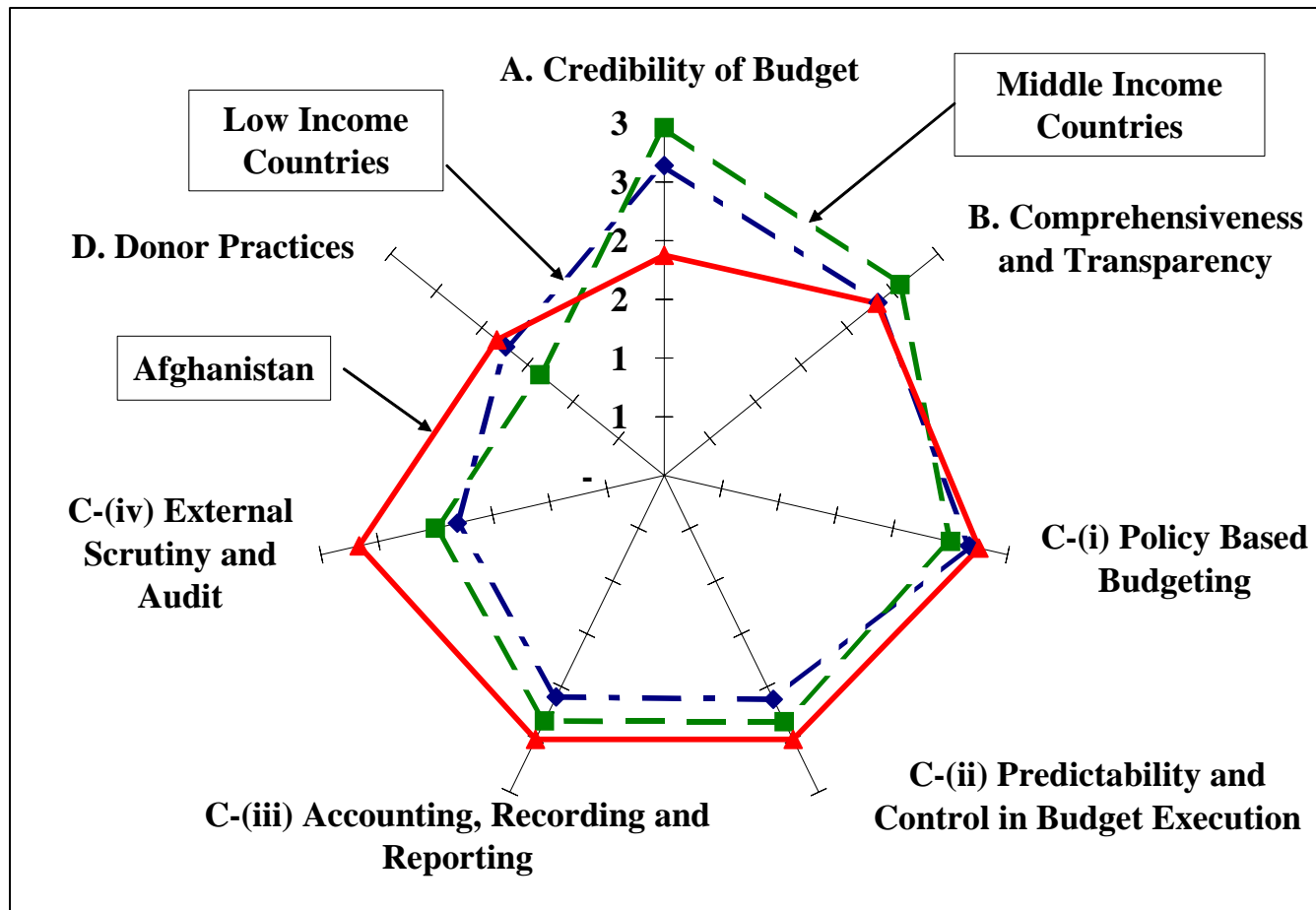
- ARTF channels contributions and secures fiduciary management through the budget
- ARTF therefore positioned as input to PFM reforms



PEFA Results – summary

Category	Up	→	Down
A. PFM Outturns: <i>Credibility of the budget</i>	0	2	2
B. Key Cross-Cutting Issues: <i>Comprehensiveness and Transparency</i>	4	2	0
C. Budget Cycle	14	4	0
D. Donor Practices	0	1	2
<u>Total</u>	<u>18</u>	<u>9</u>	<u>4</u>

Key Results: International Comparison



Note: Low income countries: average of 12 countries, middle income countries: average of 11 countries

Key findings: Highlights (i)

- **Legal framework:** PFEM Law (Jul 05); Income Tax Law (Nov 05) and Procurement Law (Oct 05) and supporting regulations provide solid legal foundation
- **Technical expertise:** MoF has seen improvements; additional emphasis on sustainable staff development crucial
- **Credibility:** Operating budget is credible and supported by strong revenues and donor assistance; gap between budget and actual remains high in the development budget
- **Comprehensiveness:** fiscal oversight of commercial activities of government (e.g. SOE's) and municipalities is practically non-existent

Key findings: Highlights (ii)

- **Process:** process is based on multi-year fiscal planning at ministry/agency levels
- **Long-term fiscal planning:** Further progress on costed sector strategies and linkage between investments and future recurrent expenditures will be key
- **Effectiveness:** decentralized payroll process contributes to timely payroll records
- **Audit:** The quality of the review of the annual budget statement must be improved; internal audit in line ministries is weak
- **Donors:** Donor support through external budget should be improved (e.g. reporting and alignment with national strategies)

Looking ahead: further improving PFM in Afghanistan

- **Credibility of budget:** (i) narrowing the gap between the budget and realization of core development expenditures; (ii) improving ANDS costing exercise
- **PFM capacity outside MoF:** capacity building in line ministries (e.g. cash management system)
- **Comprehensiveness and reporting:** improved reporting of SOEs and expenditure payment arrears
- **Internal and external audit:** Skills of audit staff must be further developed.

Development Impact

- Local infrastructure & service delivery throughout the country
 - EQUIP, NSP, NRAP
- Sustainable microfinance
 - MISFA
- Coordinating inputs for cross-government and sectoral capacity building
 - MCP, AEP/LEP, justice
- Playing a role in power distribution

Looking ahead – ARTF & Aid Effectiveness

- ANDS implementation critical new focus
- Three core areas:
 - Coordination with budget preparation process
 - Scaling-up sectoral programming (SWAp)
 - Reinforcing policy coordination & dialogue
- ARTF evaluation to stimulate new thinking

ARTF & the national budget

- Predictability
 - ARTF to support budget preparation process through close coordination
- Preferencing & prioritisation
 - ARTF to facilitate GoA/donor discussions on budgeting
- Results & resource allocations
 - Annual expenditure review
 - PAM

Towards sectoral approaches

- What are sector programs?
 - Use of country systems
 - Pooled finance
 - Support sector strategy
- Challenges:
 - Financial management risk is higher
 - Flexibility is higher – needs good planning
- Benefits:
 - Coordination
 - Ownership
 - Flexibility

ARTF & Policy Dialogue

- ARTF is a key source of
 - predictable
 - discretionary
 - & multi-year funding
- ARTF donors have a stake in key policies that affect macro-fiscal environment.
- Need for coherent and coordinated channel for policy debate
- PAM & quarterly meetings provide the platform for policy discussions