

Afghanistan Reconstruction Trust Fund

Looking Ahead:

Reconstruction ⇒ Development

Scanteam/Oslo - Aatie Consulting/Kabul

Recurrent Cost Window

- ✓ ARTF is set to contribute USD 270 mill/year ⇒ 2012
- ✓ No indications ARTF ⇒ Perverse revenue incentives
- ✓ Recurrent cost funding remains "best practice":
 - Refunding operating expenditures on-budget
 - Provides predictable un-tied funding
 - Good partnership, supports Mutual Accountability
 - Performance monitoring based on PAM, focus on PFM
- Share/importance of ARTF down as GoA revenues up
- ✓ Monitoring Agent and Performance Tracking:
 - Valuable on-site verification role, setting & implementing standards, mentoring/on-the-job training
 - As PFM improves & GoA revenues up, value-added of MA falls ⇒ define transition strategy
- Support & oversight ⇒ MoF Internal Audit

Investment Window

- ✓ **Community Based Development (NSP, NRAP, MISFA):**
 - Receiving 2/3 of investment resources
 - Funding rural socio-econ devt ⇒ poverty reduction
 - Building more admin, technical capacity than credited
 - Building links to, credibility of GoA ⇒ *nation* building
 - Mobilizes, empowers communities ⇒ accountability
 - Anchor for local stabilization, reconciliation ⇒ security
 - NSP/CDC: unique size, coverage, depth. Costly but Impact potential (baseline/impact study now)
- ✓ **Capacity Development:**
 - Important gap-filling but not strategic ⇒ No spill-over
- ✓ **Infrastructure:**
 - Fragmented portfolio, small projects, but possible shift towards Power sector, in line with ANDS

Moving to AFG *Development* TF I

- ✓ Political decision to extend to 2020 positive:
 - First post-conflict MDTF to make transition
 - In line w/ "best practice": 17-25 yrs to exit post-conflict
 - Appropriate time horizon for CD, PAR, nation building
 - Suited to longer-term dialogue, funding commitments
- ✓ ARTF ⇒ ADTF transition based on ANDS:
 - ADTF as *unified* channel: GoA merging Development and Operating components of Core budget + ANDS costed *programs* ⇒ ADTF focus on *programs*
 - "Preferencing" less targeted: fund programs not projects
 - 3 (?) year transition phase: agree on steps, benchmarks
- Which programs against which performance targets?

Moving to AFG *Development* TF II

✓ Need for *Funding* Policy:

- Comp advantage of pooled grants: large sums (USD 700 mill), info- and risk-sharing; longer time horizon; "critical mass" of actors for alignment, harmonization, coordination ⇒ *potential* for spill-over, "rules of the game"
- Agree criteria/priorities for program selection, pre-conditions
- Strengthen results focus, reporting: baselines, indicators; more attention to x-cutting concerns (gender, conflict-impact), distributional consequences (CBD vs power)
- Agree further quality assurance controls: fiduciary (anti-corruption forensic audits), other oversight mechanisms to address *systemic* concerns/dimensions
- Weaknesses: poor predictability (multi-year commitments); preferencing; poor link to reconciliation/stability concerns
- ADTF as forum for policy dialogue: (i) Funding policy *principles*, (ii) Macro economy, PFM ⇒ PAM, benchmark issues, (iii) program *contents, performane*

1. Strengthened MoF and PFM

- ✓ **MoF Facing Major Change/Development Agenda:**
 - Move to program budgeting across the board; improve MTFE realism, accuracy; ANDS costing
 - Strengthen PFM *system*: line ministries, *mostoufiats*
 - Revenue generation, expenditure mngt: PEFA review
 - Building control, Internal Audit, anti-corruption
- ✓ **Capacity Development in MoF:**
 - Today bilateral TA contracts, many contract staff
 - Develop operational comprehensive PFM CD strategy
 - MoF contract, manage TA ⇒ bilateral TA exit
 - Contracting, managing TA requires Capacity !
- **ADTF fund MoF CD strategy devt, support managem't**
- **ADTF fund medium-term CD program**

2. Community Based Development

- ✓ Broad-based poverty reduction; regional/ ethnic/ gender equity; mobilize local resources, anti-drugs
- ✓ Clarify, balance *objectives, tools* of CBD:
 - Local governance ↔ Livelihoods, econ growth ↔ Local public admin ↔ Stability, security
 - CDCs ↔ *shurahs* ↔ *maliks* ↔ IDLG
 - Program funding ↔ Preferencing ↔ Geo targeting
 - Particular concern: conflict affected areas ↔ PRTs: ADTF right vehicle for standardized response?
- ADTF fund comprehensive yet realistic CBD strategy with costed action plans over time
- ADTF take lead in mobilizing CBD funding, also high-risk activities ⇒ build medium-term predictability

3. Capacity Development

- ✓ Fundamental for public, private development but highly complex, least successful of aid "sectors"
- ✓ Most donor-driven, fragmented, distorted market
- ✓ ADTF take lead on *donor* side to harmonize, align:
 - Focus on reducing CD transaction costs to GoA
 - Assist ANDS CD strategy become more focused, operational, linked with labor-market/education sector
 - Reduce *project*-based TA and move to CD *programs* linked to function ("five common functions")
 - Make TA market more transparent, competitive – include CSOs/NGOs, bilaterals, UN, link to PAR
 - Promote "good donorship" principles for CD funding?
 - Be "best practice" CD partner for GoA
- ADTF fund ANDS CD strategy development
- ADTF fund CD implementation, medium-term program

4. Infrastructure Investments

- ✓ Infrastructure Development important ANDS priority:
 - Reflect on importance, criteria for ADTF: infrastructure for what and whom – distributional/poverty reduction, perceived equity impact
 - Clarify why *grants*-funding most appropriate for different services (roads, power, water): degree of public vs. private benefits. Alternative funding sources? – credits, private-public partnerships etc
 - Clarify how *pooled* funding provides value-added compared to bilateral lump-sum contracting
 - ADTF value-adding QA dimensions not just funding: more careful results tracking
- ADTF infrastructure funding will become considerable: clarity on value-added and comparative advantage

5. Managing Economic Rent

- ✓ Natural Resources Revenue (economic rent) as separate PFM concern:
 - Natural resource revenue important to budget
 - Potential source of major corruption, distortions
 - Must develop strong accountability *system*:
Responsibilities & roles (boundaries), powers, capacities of key actors defined, put in place: Parliament, Att-General, Aud-General, MoF, DAB, technical ministries, public access to information/accountability
 - Window of opportunity *before* income streams begin
- ADTF to fund overall program design, projects
- ADTF to fund implementation
- ADTF to fund oversight/monitoring agent

Donor Engagement

✓ Current Situation:

- Donor engagement, knowledge contribution weak
- Oversight, policy role unclear; *willingness* variable
- When ARTF allocations "rules-based" (for Recurrent) ⇒ little problem. As move towards discretionary programs funding, selection, need for voice, accountability greater

✓ "Lessons learned":

- Transition project ⇒ program funding *not* labor-saving
- More policy, strategic insights
- Performance tracking more demanding
- Donors need to strengthen engagement – policy, contents
- Parties should discuss stepping up QA ⇒ Need for more \$?
- Donors be more innovative in how contribute