



Afghanistan Reconstruction Trust Fund

Overview

The Afghanistan Reconstruction Trust Fund (ARTF) is a partnership between the international community and the Afghan government for the improved effectiveness of the reconstruction effort. Since early 2002, 30 donors have contributed over US\$3 billion (as of April 20 2009), making ARTF the largest contributor to the Afghan budget – for both operating costs and development programs. ARTF’s support for national priority programs, for operating costs of government operations and for the policy reform agenda is contributing to the achievement of the Afghanistan National Development Strategy goals.

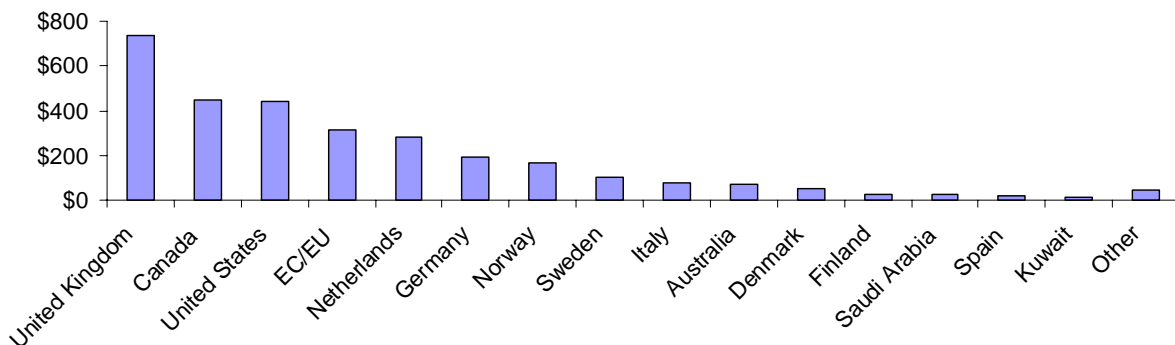
In addition, the specific objectives of ARTF are to:

- Position the national budget as the key vehicle to align the reconstruction program with national development objectives.
- Promote transparency and accountability of reconstruction assistance
- Reduce the burden on limited government capacity while promoting capacity-building over time
- Enhance donor coordination for financing and policy dialogue.

Management: The ARTF is managed by the Management Committee (MC) consisting of: the World Bank (as the administrator), the Islamic Development Bank (IDB), the Asian Development Bank (ADB) and the UN (UNAMA and UNDP). The Management Committee meets regularly in Kabul, with the Ministry of Finance as an observer, to carry out the day-to-day business of the fund. Once a quarter, ARTF Donors meet to discuss broader strategy with the government and ARTF Management.

ARTF & Donor Contributions: There are a total of 30 donors that have contributed to the ARTF over the last six years. In general, around 15 donors contribute regularly every year.

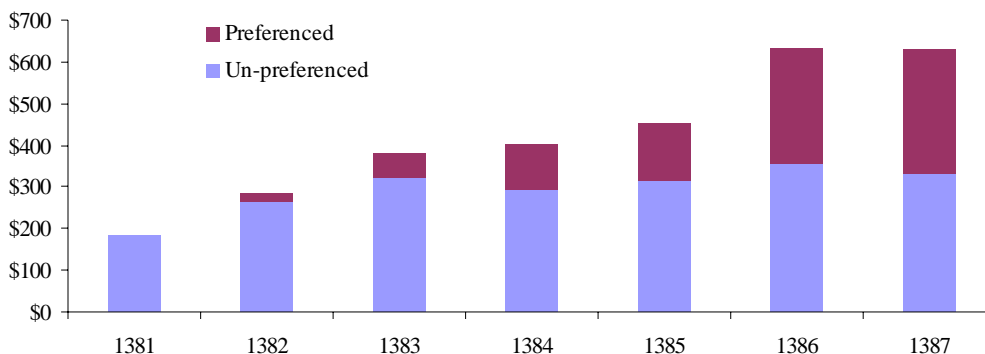
Figure 1: Main ARTF Donors and their cumulative contributions 2002-2009.



Donor contributions have increased year on year, with new donors joining and older donors increasing their level of contribution (see Figure 2). Nevertheless, over the last few years the ‘preferenced’ portion of donor contributions has been the main factor driving growth. The agreed ARTF rules are that donors may

not ‘preference’ more than half of their annual contributions (see section on preferencing on page 5). This rule is to ensure that ARTF has sufficient funding to finance the priority Recurrent Cost Window.

Figure 2: Annual donor contributions to the ARTF: SY1381 – 1387



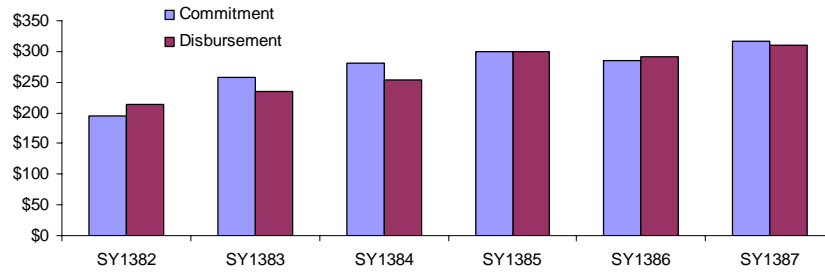
How the ARTF works:

Donors contribute funds into a single account, held by the World Bank in the US. The Management Committee makes decisions on proposed allocations at its monthly meeting, and those decisions are translated into funds through Grant Agreements signed between the World Bank and the Government of Afghanistan. ARTF allocations are made through two ‘windows’: the Recurrent Cost Window and the Investment Window. The Recurrent Cost Window reimburses the government for a certain portion of eligible and non-security related operating expenditure every year. The Investment Window provides grant financing for national development programs in the development budget.

The Recurrent Cost Window: To date, the ARTF has disbursed US\$1.7 billion through the government’s operating budget. Domestic revenues continue to be insufficient to cover the costs of government. The ARTF Recurrent Cost Window has therefore ensured the basic functioning of government including the delivery of services such as healthcare and education. Given that around 60 percent of the non-uniformed Afghan civil service is accounted for by teachers, the Ministry of Education has in general received around 40 percent of total ARTF resources. Ministries of Public Health, Foreign Affairs, Labor & Social Affairs have also been major recipients. It should also be highlighted that ARTF RC Window resources are national – ensuring the payment of salaries of around 250,000 non-uniformed civil servants in all 34 provinces of the country.

Steady year on year increases in operating costs across government mean the RC Window accounts for a declining share of the overall budget. Nevertheless, the RC Window still finances around half of the non-security costs of government. In addition, the ARTF fiduciary framework has contributed to the strengthening of the government’s public finance management systems. Disbursements are based on eligibility criteria that have been agreed with the government in line with the broader fiduciary framework for public expenditures. The World Bank contracts with a Monitoring Agent that continually monitors the eligibility of expenditures. Generally, the Recurrent Cost Window has disbursed around 100 percent of its allocation every year (see figure 3 below).

Figure 3: Recurrent Cost Window Allocations & Disbursements: SY1381 – SY1387



The Investment Window: The Investment Window has in the last two years increased significantly in volume and in scope – thanks to increased levels of donor contributions. In the last two years (SY1386 and SY1387) investment commitments have exceeded recurrent cost commitments. Disbursement rates on ARTF investment have been very strong with 74 percent of total investments disbursed as of April 20, 2009. Consistently high rates of disbursement are strongly influenced by the sectors in which ARTF invests (see Figure 3 below). Decentralised and national rural development programs, such as NSP, NRAP and Microfinance, have been strongly supported by the ARTF and these have been rapidly scaled up, ensuring strong disbursement, as demonstrated in figure 4 below.

Figure 4: ARTF Disbursements (bars) and Commitments (line) 1381 – 1387 (US\$m)

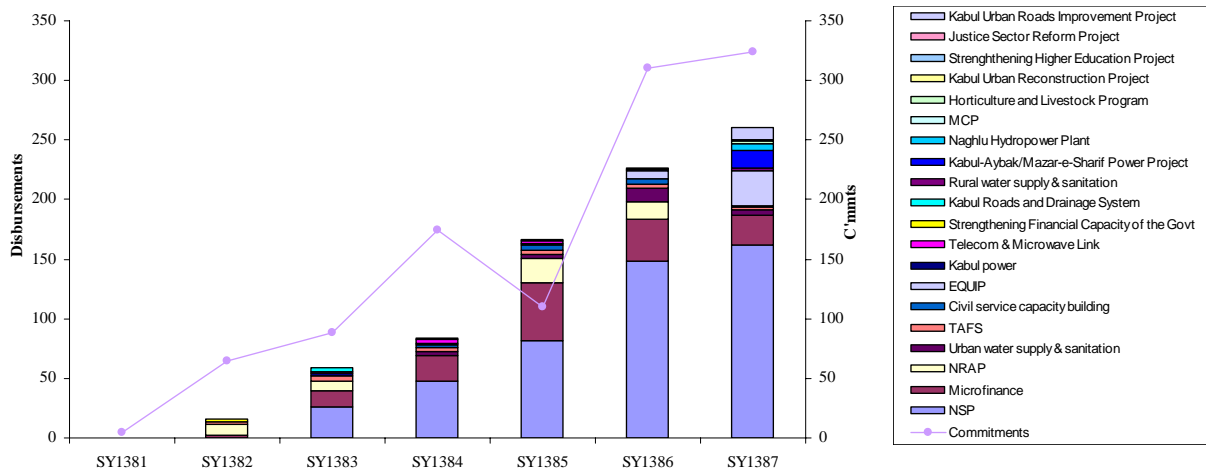
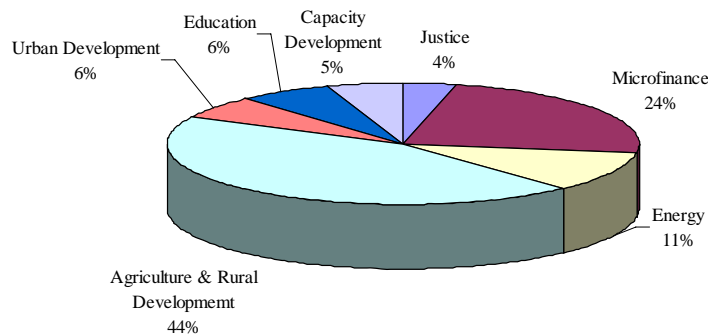


Figure 5: ARTF Active Investment Portfolio: end SY1387



As demonstrated in figure 5 above, the ARTF has been a major supporter of Afghanistan’s rural development programming. Donors have contributed significant funding through ARTF in preferences for

some of the main national priority programs, such as the National Solidarity Program, the National Rural Access Program, the microfinance program (under MISFA). Other expanding areas that are attracting donor funding include the education sector, capacity building and justice sector reform. Power and urban development (including roads & water and sanitation) have been supported by ARTF without preferences being received from donors. The table below gives a brief overview of some of the investment activities currently underway or planned. Full details of investment activities are provided in the ARTF Quarterly Reports – available at www.worldbank.org/artf

Sector/Program	Active Commitments (\$m)	Notes
Livelihoods & National Programs		
National Solidarity Program	\$349.5	Largest national program. Village block grants for rural infrastructure. Continues to roll out across the country. Requires major funding.
National Rural Access Program	\$52.8	First phase of ARTF completed March 2009 – but further roll-out now starting under NERAP. Secondary & tertiary roads. Objective is rural livelihoods, farm to market etc. National scale.
Microfinance	\$183	Major scale up of access to finance for the poor. ARTF supports an apex institution (MISFA) to finance 24 microfinance providers across the country. Continues to absorb significant annual grant funds.
Horticulture & Livestock Program	\$10.0	Ministry of Agriculture’s priority program. Under restructuring. Likely to be extended.
Future Plans in Livelihoods & National Programs		
Afghanistan Rural Enterprise Development Program		Should be ready for roll-out late 2009/early 2010.
ARTF Programs in Agriculture		In response to the Ministry of Agriculture’s scaled up agenda, ARTF is working with GoA on design of new ARTF programs.
Human Development & Capacity Building		
EQUIP	\$44	Ministry of Education’s priority program for basic education. Delivering school infrastructure and school building through block grants managed by School Committees. National in scale. Requires major funding.
Strengthening Higher Education	\$5	ARTF supporting universities of Balkh, Kandahar, Nangahar and Kabul Polytechnic for infrastructure upgrade and partnerships with foreign universities. Needs more funds.
Afghanistan Skills Development	\$9	ARTF funds are supporting the renovation of the National Institute for Management & Administration – flagship vocational institute for graduates from all provinces and special focus on females.
Management Capacity Program	\$10	Transparent buying in of Afghan capacity to key ministerial positions – at above-civil service salaries. Civil Service Commission. Seeking more funds to scale up.
Economic Infrastructure		
Power System Development Project	\$35	Financing sub-stations along the North East Power System, to ensure potential economic urban centers receiving power supply. Requires major funding for phase 2.
Kabul Urban Roads Improvement Project	\$18	New project to support Kabul Municipality in upgrading the main arteries of Kabul.
Urban Water Supply & Sanitation	\$41	Financing provincial towns water supply & sanitation systems. Has been slow implementation – now proceeding. May require further funding to follow-on.

Procedure for making a contribution: Donors generally make annual pledges which are paid in during the Afghan Solar Year (March 21 – March 20). The following steps are necessary to make a contribution:

1. Donors can contact the World Bank, acting as Administrator for the ARTF, to indicate its intention to make a contribution. The main point of contact is Hugh Riddell, Coordinator of ARTF, based in Kabul (hriddell@worldbank.org).
2. Following initial discussions, a legal agreement is drafted by the World Bank and sent for clearance to the donor agency.
3. Once both the donor and the Bank are comfortable with the draft, it is signed and sent for signature in duplicate to the donor country.
4. Following counter-signing the donor pays in the contribution to the Bank details attached to the legal agreement.
5. The ARTF standard terms and conditions are attached to the agreement.
6. Donors are free to make further contributions whenever they are able. A simple ‘amendment’ letter is countersigned. Generally, active donors sign two or three legal agreements in a year.

Preferencing: The ARTF has developed a system of “preferences”. A preference is not an earmark. However, it is a formal recognition by the Administrator of the donor’s preference to allocate a certain portion of a contribution towards a particular project. To date, preferences have been met. There are some key rules that guide this system.

1. The ARTF will not accept preferencing in excess of 50 percent of a donor’s contribution in a solar year.
2. This rule is lifted for all donors once sufficient un-preferenced funds have been paid in to ARTF to cover the ARTF Recurrent Cost window obligation. Once the rule is lifted, donors can make further preferenced contributions if they wish.
3. Geographic preferencing is not accepted by the ARTF.
4. Preferences must be for ongoing, on-budget, national priority programs, that have a clear funding gap.

Impact

National level impact: ARTF has developed into the main multilateral funding mechanism for the Government’s Core Budget and is positioned to be the key funding source for ANDS implementation. Its main national-level impact is therefore in its contribution towards greater coherence of the delivery of development assistance in Afghanistan. ARTF contributes to broader coherence of the Afghanistan operation by:

- Channeling resources in line with Afghan priorities – thereby strengthening the ownership and accountability of the Afghan government for the resources deployed.
- Channeling resources through the Afghan budget – thereby strengthening the budget as the main policy tool for directing and allocating resources for priority needs.
- Offering a collective platform for donor funding – thereby reducing the transaction costs of government dealing with 30 plus donors bilaterally.
- Offering a collective platform for donor/government dialogue – thereby creating leverage on the government on critical reform points.
- Offering an efficient channel for funding scale up of national priority programs – which are considered to be more effective mechanisms for development than individual projects.

ARTF & Development Impact: ARTF investments are delivering development & infrastructure across the country. Increasingly we are encouraging programs to put in place comprehensive third party evaluation, such as the Harvard baseline studies for NSP & NRAP, the IDS baseline for microfinance. *The following section lays out some of the results we have achieved through ARTF:*

ARTF is investing in Afghanistan's education system, ensuring national access to quality school infrastructure and an improved standard of teaching. ARTF enabled the scale up of the government's national basic education program: EQUIP, contributing to the construction of more than 800 schools; the organization of more than 8,000 School Management Committees and the financing of more than 2,500 school improvement plans (SIPs), through quality grants managed directly by schools. In addition, EQUIP I trained approximately 45,000 teachers and provided technical assistance to the MOE for curriculum and textbook development, infrastructure designs and quality controls. ARTF support to the recurrent costs of government – which finances around US\$100 million p.a. in teachers' salaries across 34 provinces - is leveraging policy reforms in the areas of teacher competency, training and administrative reform of the Ministry of Education. More recently ARTF has invested in the university partnership scheme and the new National Institute for Management and Administration (NIMA) – making ARTF now one of the key investors in the broader education sector.

ARTF is investing in Afghan communities, putting resources directly into the hands of citizens, and building better governance from the ground-up. Through the National Solidarity Program, the government has been able to reach out and improve lives of 18 million villagers in all 34 provinces of the country. The block grant scheme has developed with ARTF support into the country's largest and most successful program, mobilizing over 22,000 communities to develop community plans, and completing over 27,000 small infrastructure projects in critical areas such as water supply, irrigation, roads and power. Since the program began in 2003, the NSP has funded more than 800 micro-hydro or solar power generation projects across 21 of the country's 34 provinces. These projects have not only brought light to over 300,000 village dwellers, they have also ended centuries of isolation for these people by connecting them through radio and television to the wider world beyond. Many more such projects are under implementation.

ARTF is investing in finance for the poor, enabling an extraordinary scale-up in access to microfinance services across the country. Today, the sector has 284 branches across 24 provinces, servicing over 445,000 clients, of whom 63 percent are women. MISFA – the apex institution that implements the microfinance program – has opened a lending window for small and medium sized enterprises. The SME window now works with five banks that began to make small business loans towards the end of 2007. By the end of March 2008 they had made 170 loans ranging in size from US\$ 10,000 to US\$ 1.5 million to 170 businesses in six provinces outside Kabul.

ARTF is investing in the country's core infrastructure, closing the gap between village and market and between power grid and electricity consumer. The National Rural Access Program is the government's main means to deliver rural access across the country through public works. To date, ARTF has contributed to reconstruction of over 3,000 kms of rural roads, 15,000 hectares of rehabilitated land and 5.4 million labor days. Meanwhile ARTF is rapidly becoming one of the key investors in the country's power supply system, with US\$120 million currently committed to the sector. ARTF is financing the rehabilitation of the country's two largest hydro-power plants -- Naghlu and Mahipar -- that supply the city of Kabul in collaboration with the European Commission and German KfW. The Mahipar plant is scheduled to be completed in 2009 while Naghlu is expected to be ready by mid 2011. The ARTF is also one of the three major investors working in the complex area of power distribution in the north of the country. From mid 2009 onwards, when the full 150 MW of power that Uzbekistan has agreed to supply under a new power purchase agreement begins to flow, the ARTF will facilitate its distribution

among the potential economic hubs of Mazar-e-Sharif, Aybak, Pul-e-Khumari, Jabul-es-Seraj, Charikar and Gulbahar.

ARTF is investing in sustainable government capacity to ensure the improved delivery of services. Through a series starting in 2003, ARTF has supported the government’s ability to hire quality and skilled Afghans into regular positions on the government’s tashkeel. Managed by the Civil Service Commission, this series of projects has brought in 237 skilled Afghans into line positions. The new Management Capacity Program is now supporting a more strategic hiring of core senior personnel to support common functions across the government. The program is just ramping up, and already has 38 personnel on contracts out of the first batch of 70.

Impact of the Recurrent Cost Window: The ARTF monitors the impact of the recurrent cost contributions using the Performance Assessment Matrix (PAM). The policy dialogue around the ARTF and the associated PAM is focused on areas and issues of particular relevance to the ARTF, under the umbrella of the ANDS and Compact. The March 2009 PAM is available on the website.

PAM Area	Justification
Public Finance Management	PFM is critical for the appropriate and effective utilization of ARTF resources, and moreover the national budget process has a major impact on the prioritization of spending and results achieved
Aid Effectiveness and Mutual Accountability	Aid effectiveness goes to the heart of the ongoing partnership between Afghanistan and the international community, with the focus being on financial aspects in the context of the ARTF. Thus this part of the policy dialogue reinforces and enhances the corresponding objectives in the Afghanistan Compact as well as more broadly the Paris Declaration on Aid Harmonization.
Development Sectors: Education and Health	Key social services for human development in Afghanistan, and the ARTF is a major funder of both (especially Education), notably through the recurrent budget. (Depending on the experience with these two sectors, additional sectors may be included in the ARTF policy dialogue process and PAM later, as appropriate.)
Public Administration Reform	PAR is a core element of the state building agenda: specifically with respect to the ARTF, PAR is extremely important for developing the sustainable core capacity in Government that enhances the impact of external assistance through the Core Budget and from a longer-term perspective will reduce Afghanistan’s dependence on expensive and unsustainable international capacity.

In addition, donors and government have recently endorsed the **ARTF Incentive Program**, which is intended to strengthen the policy dialogue and support provided by ARTF recurrent cost window. The scheme essentially puts in place incentives for meeting certain pre-agreed benchmarks on an annual basis. The objectives of the new Incentive Program are:

- Predictable ARTF RC funding over the medium-term – and hence aid effectiveness
- Support for Government’s core policy reforms, including domestic revenue generation
- Strengthening the ARTF as a platform for policy dialogue between Donors and Government
- Clearer strategic objectives for the ARTF RC Window

The first year of the program has been completed successfully.