

ARTF PERFORMANCE ASSESSMENT MATRIX PROGRESS AND CHALLENGES

(As of October 30, 2007)

This note on a selective basis summarizes and highlights areas of progress and challenges based on the updated ARTF Performance Assessment Matrix (PAM) which is attached (see Attachment 1). The original covering note for the PAM also is attached for information and reference (Attachment 2). This summary focuses on public financial management (PFM) and aid effectiveness, but also discusses briefly the other categories (education, health, and public administration reform).

1. Public Financial Management

According to most indicators, PFM performance in SY1385 was better than the earlier estimates in April 2007 (see Table 1).

- On **revenue mobilization**, the revenue to GDP ratio turned out to be 7.0 percent in SY1385, which exceeded the earlier estimate of 6.5 percent made in April.
- On **budget execution**, in absolute terms, total core development expenditure increased by 57 percent over the previous year and reached to US\$713 million, an impressive achievement. The budget execution ratio of core development expenditures in SY1385 reached 54 percent (US\$713 million)¹. This exceeded the April estimate of 50 percent, and represents a substantial increase over SY 1384 (US\$486 million or 38 percent), albeit less than the more optimistic expectations earlier during SY1385. An even larger increase in core development expenditures is budgeted for SY1386, indicating that there will most likely continue to be a very sizable shortfall between the budget target and actual spending.
- On **procurement**, (i) the Procurement Policy Unit (PPU) was established in the Ministry of Finance (short-run action shown in the PAM as of April 2007) in August 2007; (ii) procurement regulations were approved in April 2007; (iii) a Special Procurement Commission (SPC) has been put in operation; and (iv) the procurement appeal and review mechanism is in place.

Table 1: Selected PFM Indicators (Comparison between Target and Realization)

Indicators	SY1384 actual	SY1385 target	SY1385 estimates as of April 2007	Preliminary Actual
Revenue to GDP ratio	5.7%	6.4%	6.5%	7.0%
Revenue to operating expenditure ratio	64%	61%	67%	64%
Budget execution ratio (core development)	38%	n/a	Above 50%	54%
ARTF eligibility ratio – Salary	84%	95%	96%	95% (of US\$239m)
- Non-Salary	73%	90%	88%	82% (of US\$122m)

Source: World Bank Staff

But on the other hand, there are some challenges.

- On **revenue mobilization**, the SY1386 budget projects that the revenue to GDP ratio will be 7.2 percent in the current financial year. Performance in terms of revenue realization during the first three months of SY1386 fell short of the target, but this was compensated by gains in the second three months, with year-to-date revenue (at Afs 15.9 billion) exceeding the IMF-agreed target (Afs 15 billion) for the first half of SY1386. In order to achieve the annual

¹ This is partly due to the government ambitious target on core development expenditures.

target (Afs 35.7 billion), further tax policy and tax administration improvements will be key to robust and sustained growth of domestic revenues in coming years.

- On the **linkage between budget and strategy**, ANDS prioritization on a costed basis is underway for selected sectors (e.g. health, education and roads). The integration of ANDS costing with the SY1387 budget will require substantial efforts.
- On **accounting and reporting**, financial regulations were approved (short-run action in the PAM in April 2007), and the implementation of these regulations is essential.
- On the **control framework**, the ARTF eligibility ratio (non-salary) in SY1385 was 82.4 percent (US\$100 million out of US\$122 million), an improvement over 73.3 percent in SY1384.

2. Aid Effectiveness and Mutual Accountability

Some improvements in aid effectiveness were achieved in SY1385 (see Table 2).

- On the **government's PFM system**, the PFM Action Plan was approved by the Cabinet in April. A second assessment of PEFA PFM performance ratings is scheduled to be conducted in late 2007 and early 2008, following the first assessment in mid-2005.²
- On **predictability of ARTF funding**, significant dialogue has occurred, and progress has been made in establishing an annual schedule of payments of ARTF. As a result, 90 percent of the total ARTF pledge was deposited by donors by the end of SY1385. This ratio is expected to further improve in SY1386 and beyond.

Table 2: Selected Aid Effectiveness Indicators (Target versus Realization)

Indicators	SY1384 actual	SY1385 target	SY1385 estimates as of April 2007	Preliminary Actual
% of ARTF estimated recurrent need	25%	60%	60%	60%
% of un-preferenced pledges (ARTF)	73%	70%	67%	70%
Discretionary resources as share of total core dev budget	52%	-	-	67%
Direct budget support as share of total ODA	20%	35%	-	

Source: World Bank Staff

There are, however, a number of challenges.

- On **increasing the flexibility of ARTF resources**, the share of un-preferenced ARTF pledges decreased from 73 percent in SY1384 to 70 percent in SY1385³. The share is expected to further decrease to 60 percent in SY1386. The reasons behind this include the following: (i) donors were allowed to indicate preferences later in the year (SY1385) because the needs of the recurrent window had been fully satisfied; (ii) the absolute level of donor contributions has increased over the year, with incremental contributions later in the year often committed with preferences indicated; and (iii) stronger advocacy on the part of the Government for un-preferenced ARTF contributions may be needed, including not letting such advocacy be undercut by line ministries requesting donors to indicate preferences for their programs.

² The Public Expenditure and Financial Accountability (PEFA) indicators were developed by the multi-agency international PEFA group, and are intended to provide a comprehensive and comparable (both over time and across countries) snapshot of the performance of a country's PFM system. For the first assessment of Afghanistan's PFM system based on the PEFA indicators, see *Afghanistan: Managing Public Finances for Development* (World Bank, 2005, Volume II, Section 1, and also Chapter 2 in the summary volume).

³ Un-preferenced ARTF pledge increased from US\$ 294 million in SY1384 to US\$ 317 million in SY1385.

- On **increasing flexibility of all core budget assistance**, discretionary resources as share of total core budget reached 29 percent in SY1385 and direct budget support as share of total ODA disbursed (per Paris Declaration Survey) was 37 percent in SY1385.

3. Education

Progress against the education indicators has been on track. Gross enrollments have been progressing well and are planned to reach a 100 percent in SY1388. The Ministry of Education is on track with respect to in-service training of 100,000 male and female teachers, the Human Resources Management Information System (HRMIS) and the Human Resources (HR) system are under preparation, and the competency framework for pre-service teacher training development is completed.

4. Health

Health indicators improved between SY1384 and 1385.

- **Percent of districts with financing and organizational arrangements to deliver the BPHS** (Basic Package of Health Services) increased by 5 percent to 82 percent.
- **Outpatient visits per capita per year to publicly funded clinics** improved from 0.4 in SY1384 to 0.6 in SY1385.
- **DPT coverage among children 12-23 months of age** significantly improved from 18 percent in SY1384 to 35 percent in SY1385.

Despite the significant progress made in SY1385, early indications suggest that progress in SY1386 will not be as promising due to the deterioration of the security situation.

5. Public Administration Reforms

Progress on key indicators has been as follows (see Table 3):

- On **structure of government**, the guidelines for the establishment of RIMUs (Reform Implementation Management Units) in ministries and agencies were finalized in June. The number of ministries and agencies with an approved restructuring plan reached 25 in SY1385, exceeding the earlier expectation of 18.
- On **human resource management**, the appointments regulations were finalized and sent to the Ministry of Justice in April. The number of civil service appointments through merit-based procedures doubled from 7,500 to 15,000 between SY1384 and SY1385.
- On **capacity development**, delivery of training was transferred to CSI (Civil Service Institute) in early 2007, and the ARTF-funded Management Capacity Program was approved in February 2007. The cumulative number of senior civil servants who have completed leadership training increased from 140 in SY1384 to 310 in SY1385.

Table 3: Selected PAR Indicators (Comparison between Target and Realization)

Indicators	SY1385 target	SY1385 estimates as of April 2007	Preliminary Actual
Number of ministries/agencies with approved restructuring plan	18	10	25
Number of ministries with established RIMUs	1	2	1

Source: World Bank Staff

ATTACHMENT 1: AFGHANISTAN PERFORMANCE ASSESSMENT MATRIX (UPDATED AS OF 12 SEPTEMBER 2007)

Public Financial Management (1/3)

Broad Area	Specific Objective	Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
					SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Moving Toward Fiscal Sustainability	Revenue mobilization	Revenues cover operating costs	Implement Custom & Revenue plans; LTO well-functioning	Revenue to GDP ratio 1/	5.7%	7.0%	7.2%	7.7%	8.2%
				Revenue to Operating expenditure ratio 1/	64%	64%	67%	70%	73%
	Medium-Term Fiscal Framework	Progress toward fiscal sustainability on expenditure side	Strengthen MTFE, embed in budget schedule.	Operating expenditures to GDP ratio 1/	8.9%	11.1%	10.8%	11.0%	11.3%
Improving Service Delivery: PFM Aspects	Spending mix for service delivery	Appropriate share of non-salary spending	Budget adequate non-salary for service delivery	% of non-salary in total civilian recurrent expenditures	35%	39%	35%	37%	36%
				% of non-salary spent in provinces	25%	25%	Increase over previous year		
	Linkage between budget & strategy	Budget reflects ANDS priorities	Develop ANDS priorities to inform budget	No. of costed sector strategies, business plans	n/a	n/a	3	all	n/a
Improving Public Financial Management Performance and Combating Corruption	Budget Formulation	Timely and effective budget process	Finalize budget schedule & start 1387 budget process with Fiscal Policy Strategy	New budget schedule adhered to	Budget schedule adhered to	Budget schedule adhered to			
				participation in programmatic budgeting	1 st MTFE	Improved MTFE linked to budget process			
	Budget Execution	Performance in relation to annual budget targets	Effective mid-term review in 1386	Execution ratio (operating)	98%	98%	100%	100%	100%
				Execution ratio (development)	38%	54%	Increase over previous year		

1/ IMF's PRGF program target

Public Financial Management (2/3)

Broad Area	Specific Objective	Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
					SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Improving Public Financial Management Performance and Combating Corruption (continued)	Procurement	Implement new Procurement Law	Create PPU in MoF Approve Procurement Regulations	No. of Ministries with procurement databases & capacity	n/a	regulations approved and gazetted	3 ministries	6 ministries (including all key spending ministries)	6 ministries
	Control Framework	Improving fiduciary standards	Implement ARTF Monitoring Agent recommendations and Verified Payroll Plan	ARTF eligibility ratio (salary)	84.4% salary eligibility	94.8% salary eligibility	Maintain / improve	Maintain / improve	Maintain / improve
				ARTF eligibility ratio (non-salary)	73.3% non-salary eligibility	82.4 % non-salary eligibility	Maintain / improve	Maintain / improve	Maintain / improve
				% of staff with Individual Salary Payment	10% VPP	23% VPP	45% VPP	70% VPP	80% VPP
	Accounting and Reporting	Quality of regulatory framework and reporting transparency	<ul style="list-style-type: none"> Implementation of PFEM regulations. Fiscal documents available to public 	Compliance with PFEM law	PFEM Law approved	Financial regulations were approved	Compliance with PFEM law		
	Legal framework against corruption	Establish an effective legal framework against corruption	Ratify the UN Convention against Corruption	The existence of relevant legislation and reports from monitoring mechanism	n/a	n/a	UN convention against corruption ratified	National legislation adapted	A monitoring mechanism is in place to oversee implement
	External Accountability, Audit, Scrutiny	Timely availability of Audit Financial statements and review by Parliament	Prepare 1385 financial statements by July & audit by Sept; review by Parliament	Month financial statement & audit for previous year' review by Parliament	Statement: July Audit: Dec	Statement: July Audit: N/A	Statement: July Audit: Sep	Statement: July Audit: Sep	Statement: July Audit: Sep

Public Financial Management (3/3)

Broad Area	Specific Objective	Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY 1385), and Projections				
					SY1384 (Baseline and Actual)	SY1385 (Pre. Actual)	SY1386 (Pro.)	SY1387 (Pro.)	SY1388 (Pro.)
Capacity Development and Reform of PFM Institutions	MoF reform strategy	Implement MoF reform strategy, including at provincial level	Implementation of MoF reform plan	Progress of implementation	MOF reform plan drafted	MOF reform plan approved (Aug 2006)	Satisfactory implementation		
			Implement Mustufiats reform plan	No. of Mustufiats reformed 2/	None	Reform plan developed (July 2006)	2 Mustufiats reformed	6 Mustufiats reformed	7 Mustufiats reformed
	PFM reform & capacity in line ministries	Effective financial management capacity in line ministries	Develop "model FM / Budget unit" in one ministry	No. of ministries with effective Financial Management/ Budget Units	TBD	TBD	TBD	TBD	TBD

/2 There will be two Mustufiats (Herat and Parwan) with AFMIS operational by December 2007. In SY1386, additional four Mustufiats (Nengarhar, Kandahar, Bulkh and Kundoz) will be operational with AFMIS as pilots.

Aid Effectiveness and Mutual Accountability (1/2)

Broad Area	Specific Objective	Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
					SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
PFM Performance	Government's PFM system	Improve / maintain PFM performance	Finalize and approve PFM Action Plan	PEFA PFM Performance Ratings	See PFM Rev Table 2.1	Not monitored	Review in 2 nd half 2007	Not monitored	Review in 2 nd half 2009
Improving effectiveness of ARTF	Predictability of ARTF funding	More predictable ARTF funding on annual basis	ARTF donors to discuss and work toward this objective Q4 of every year, donors provide projection of the following fiscal year	% of ARTF estimated recurrent need for FY committed or pledged at start of FY	25%	60%	10% increase over previous year	10% increase over previous year	10% increase over previous year
		More predictable ARTF funding on annual basis	All pledges signed and contributed within 6 months of start of fiscal year	% of total ARTF pledges deposited by donors by end of fiscal year	77%	90%	Increase over previous year	Increase over previous year	Increase over previous year
		More predictable ARTF funding over the medium term	ARTF donors to discuss and work toward this objective	Major donors provide amount of ARTF funding committed / pledged over next 3 years/current year's level.	180 million	320 million	10% increase over previous year	10% increase over previous year	10% increase over previous year

Aid Effectiveness and Mutual Accountability (2/2)

Broad Area	Specific Objective	Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (1385), and Projections				
					SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Increasing National Ownership	Increase flexibility of ARTF resources	Give the government increased ownership and flexibility to allocate resources to national priorities	Decrease donor preferencing in ARTF contributions	% of un-preferenced pledges (ARTF)	73%	70%	60%	Increase over previous year	Increase over previous year
	Increase flexibility of all core budget assistance	Give the government increased ownership and flexibility to allocate resources to national priorities	Increasing non-project and un-preferenced funds channeled through development budget	Discretionary resources as share of total core development budget	52%	67%	32%	Increase over previous year	Increase over previous year
	Use of national budget channels	Increase share of aid through Core Budget	Follow up re Paris Declaration	Direct Budget Support as % of total ODA disbursed (per PD Survey)	20%	n/a 3/	Increase over previous year	Increase over previous year	Increase over previous year

3/ Paris Declaration survey is conducted every two years. Next survey for SY1386 is scheduled to be conducted in early 2008.

Education (1/2)

Broad Area	Specific Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
				SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Increase access to education in grades 1-9⁴	Increase Enrolment Rates in Grades 1-9.	<ul style="list-style-type: none"> Rehabilitate/construct schools close to communities and implement social mobilization programs for increased enrolment. Increase numbers of female teachers Mandate formation of School Management Committees (SMCs) 	Gross Enrollment Rates	61%	70%	80%	90%	100%
			Percentage of female teachers	n/a	27.6%	29%	30%	35%
			Percentage of schools with SMCs		Formation of SMCs mandated in all public schools.	75% registered schools have functioning SMCs	100% of registered schools have functioning SMCs	n/a
Increase quality of education in grades 1-9	All public sector teachers are trained.	<ul style="list-style-type: none"> Accelerate in-service teacher training in all 34 provinces for both permanent and <i>ajir</i> teachers. Develop HR system for teachers and project teacher needs for every 2 years including identifying excesses and deficits in teaching staff 	Percentage of teachers (both permanent and <i>ajir</i>) in government schools who have received in-service training.	15,000	37,000 In-service trained teachers. ID and Registration program being developed	100,000 in-service trained teachers. ID and Registration Process completed. HR system and HRMIS under preparation.	All (est. 140,000) in-service trained teachers. HRMIS 85% completed.	HRMIS 95% completed.

⁴ Basic and compulsory education in Afghanistan is Grades 1-9 and covers primary and junior secondary schooling.

Education (2/2)

Broad Area	Specific Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
				SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Increase quality of education in grades 1-9 (Continued)	Qualification based hiring of teachers	<ul style="list-style-type: none"> Develop a competency based pre-service teacher training framework and syllabi for Teacher Training Colleges (TTCs). Expand/strengthen TTCs in provinces. 	Percentage of incoming permanent female and male teachers that have stipulated minimum qualifications/TTC degrees.	NA	Competency framework for pre-service teacher training development completed.	Competency framework for pre-service teacher training piloted.	Competency framework for pre-service teacher training implemented. 10,000 new female and male student teachers receive pre-service training.	20,000 new female and male student teachers receive pre-service training.

Health (1/2)

Broad Area	Specific Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
				SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Increase access to the Basic Package of Health Services (BPHS), with improving quality	Increase % of population with access to the BPHS	Sign partnership agreements with NGOs in uncovered areas and/or expand the MOPH strengthening mechanism	% Population of districts with financing and organizational arrangements to deliver BPHS 5/	77%	82%	85%	87%	88%
			Outpatient visits per capita per year to publicly funded clinics 5/	0.35	0.6	0.8 (Q1 SY1386)	0.9	1.0
	Greater coverage of preventative services	Maintain focus on improved immunization coverage and increase outreach activities	DPT3 coverage among children 12-23 months of age	18% (NRVA 2005)	35%	40%	45%	50%
	Improved access to reproductive health services	Further increase no. of skilled midwives, especially in rural areas, expand outreach activities, explore incentives for mothers to deliver in facilities	Contraceptive prevalence rate 5/	14.9%	15.4%	22%	25%	30%
			Skilled birth attendance (%) 5/	13.5%	18.9%	25%	30%	35%
			Coverage of antenatal care 5/	16.3%	30.3%	40%	45%	50%
	Improved quality of care as judged by independent survey	Continuous in-service training of health workers and systematic supervision.	Balanced score card (based on third party evaluation), median score, nationally	52.4% (Sep 2004)	66.5% 6/	5% increase from previous year	5% increase from previous year	5% increase from previous year

5/ Based on ANDS targets as of SY1389 (2010/11)

6/ Excluding a few insecure provinces

Health (2/2)

Broad Area	Specific Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
				SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Improve quality of care in secondary and tertiary hospitals	Improved quality of care (broadly defined) as judged by independent survey	Implement Essential Package of Hospital Services, TA to strengthen hospital management, implementation of alternative hospital management mechanisms.	A separate balanced score card on secondary and tertiary hospitals (based on third party evaluation), median score, nationally			TBD	5% increase from previous year	5% increase from previous year
			% of provinces that have initiated hospital reform process.	29% (10/34)	29% (10/34)	50% (17/34) 7/	59% (20/34)	74% (25/34)

7/ As of August 2007, 14 provinces out of 34 provinces

Public Administration Reform (1/3)

Broad Area	Specific Objective	Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
					SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Structure of Government	Restructured and Rationalized Civil Service	Restructured small civil service which reflects core functions and eliminates duplication of functions; standardization of new position-based grading system across government	Develop implementation plan of pay and grade reform;	Number of civil servants (in line with MTRF)	300,000	300,000	310,000	320,000	330,000
			Develop costed options for severance;	Number of government ministries and agencies with approved restructuring plans (PRR Stage Two) including new organizational structures with ToR (center and sub-national)	10/44 Ministries and agencies	25	28	35	44 (all ministries and agencies)
			Develop PRR Stage Two proposals for unrestructured departments, ministries and agencies;	% of positions re-graded in line with approved 8-grade structure	N/A	0%	10%	40%	70%
			Commence Implementation of new grading structure;	Number of Ministries with established RIMUs (Reform Implementation and Management Units)	0	1	5	10	18
			Finalize template for MoUs between ministries and IARCSC						

Note

- (1) Review of RIMU at Ministry of Education (short-run measure of April 2007 PAM) was achieved in December 2006
- (2) Finalize guidelines for establishment of RIMU (short-run measures of April 2007 PAM) was achieved in June 2007

Public Administration Reform (2/3)

Broad Area	Specific Objective	Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (1385), and Projections				
					SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Human Resource Management	Merit-based Appointments	All CS appointments merit-based; civil servants' skills and qualifications match requirements of the position	Implementation of the Appointment Board's Action Program	Number of civil service appointments made through merit-based procedure	7,462	15,000	30,000	120,000	210,000
				Annual independent quantitative and qualitative review of process and outcomes of merit-based appointments	Annual Review by AB	Annual Review by AB	Annual Review by AB	Annual Review by AB	Annual Review by AB
	Performance Management	Senior staff are performing in line with the requirements of their position	Performance appraisal procedure developed; Training provided to ministry staff on performance appraisal Piloting of performance appraisal in selected ministries	% of senior civil servants for whom annual performance evaluations are conducted	0%	0%	15%	35%	100%

Note

(1) Appointments Regulation reviewed, finalized and sent to Ministry of Justice (short-run actions for April 2007 PAM) was achieved in April 2007

Public Administration Reform (3/3)

Broad Area	Specific Objective	Objective	Short-Run Actions	Indicators	Baseline (SY1384), Actual (SY1385), and Projections				
					SY1384 (Baseline and Actual)	SY1385 (Prelim. Actual)	SY1386	SY1387	SY1388
Capacity Development	Extra-normal Appointments to line positions	Fill key senior civil service positions central to leading the reform effort with qualified staff; reduce need for donor top-ups	<ul style="list-style-type: none"> • PAR SC to decide on scope over medium-term and costings; • Implementation of MCP (management capacity program); • Develop guidelines on rationalization of donor top-up 	Cumulative number of positions filled through LEP and MCP	N/A (81 through LEP)	N/A (100 through LEP)	150	300	360
	Leadership and Managerial Capacity	Civil Servants who can lead and manage the reform process and the establishment of an effective and efficient civil service	Conduct assessment of training to date;	Cumulative number of female and male senior civil servants that have completed leadership training (provided by IARCSC)	140	310	450	590	N/A
	Common Functions	Ministries are able to carry out basic common functions (admin, finance, HR, policy-making, project management etc).	<ul style="list-style-type: none"> • Curriculum for training developed for common functions; • Organizational structure developed for common function departments • Strategy for development of capacity in the common functions 	TBD /(3)	TBD	TBD	TBD	TBD	TBD

Note

- (1) ARTF proposal developed and approved on building administrative capacity (short-run actions for April 2007 PAM) was achieved in February 2007
- (2) Transfer delivery of training to CSI (civil service institute) (short-run actions for April 2007 PAM) was achieved in January 2007
- (3) Indicators will be developed after deciding implementing short-run actions.

ATTACHMENT 2

AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF) PERFORMANCE ASSESSMENT MATRIX

Background and Objectives

1. The Performance Assessment Matrix (PAM) is designed to serve as a Results Framework for the ARTF. This tool, which also provides a basis for policy dialogue around the ARTF, falls fully under the umbrella of the I-ANDS (and full ANDS which is under preparation) and is in complete alignment with the Afghanistan Compact indicators. The ARTF policy dialogue and PAM focus on a subset of the comprehensive coverage of the I-ANDS and Compact – i.e. areas of particular relevance for the ARTF and ARTF donors – and in these areas the PAM is consistent with the I-ANDS and Compact.⁵
2. The ARTF donors, by virtue of their substantial and continuing financial contributions to Afghanistan’s Core Budget through the ARTF, rightly have an interest in reviewing progress and discussing policy issues with the Government. Correspondingly, the Government has a strong interest in maintaining predictable support to its Core Budget, including through the ARTF. However, none of the ARTF stakeholders see this process as inconsistent with or duplicative of the I-ANDS and Compact.
3. The overall objectives of the PAM and discussions around the results it illustrates are:
 - **To demonstrate the development impact of ARTF** and thereby help justify continuing donor funding and attract new pledges.
 - **To improve the predictability of donor funding** to the Core Budget.
 - **To support the Government of Afghanistan’s aid effectiveness agenda**, of which the ARTF forms an important element.
 - **To provide greater confidence to donors when providing assistance through the Core Budget** and address donors’ concerns about using this channel.
 - **To support the Government’s reform program** in areas of special relevance to the ARTF, and to engage donors in policy discussions on the reform program.
4. These objectives will not all be achieved easily or at once, and expectations about both the PAM and immediate reform outcomes should not be too high at the outset. The key is establishing a robust process that generates timely and constructive dialogue, is flexible enough to evolve over time, and is rooted in ARTF stakeholders working together.

Scope and Content

5. As discussed above, **the policy dialogue around the ARTF and the associated PAM will be focused on areas and issues of particular relevance to the ARTF**, under the umbrella of the ANDS and Compact. More specifically, the scope of the PAM is as follows:
 - Public Finance Management
 - Aid Effectiveness and Mutual Accountability
 - Development Sectors: Education and Health
 - Public Administration Reform

⁵ In cases where I-ANDS / Compact benchmarks are widely considered by concerned technical experts as too ambitious and are very unlikely to be achieved, if such benchmarks are used in the ARTF PAM the targets may be appropriately scaled back so that they are realistically achievable with strong efforts on the part of all stakeholders.

6. The justification for this choice of scope is straightforward. Adequate **public finance management** 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** go 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. **Education and Health** are 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 issues such as 'preferencing' and balancing contributions to the recurrent window may also warrant discussion.
7. Turning to content, within each of these areas **the PAM is intended to be lean**, with a limited number of key indicators whose monitoring will provide a reasonable picture of progress and will highlight issues for policy dialogue. Where feasible, indicators have been selected from the I-ANDS / Compact indicators.⁶ Indicators have been chosen and benchmarks set through full consultation between the Government, the ARTF donors, and the World Bank as ARTF Administrator. However, the PAM is a "living document" to serve as a basis for policy dialogue, and indicators as well as targeted benchmarks are not be set in stone but can be adjusted in the light of experience with the process.
8. It is important to make a clear distinction between monitoring and reporting – which is centered on the PAM and will generate short reports for donors and Government summarizing progress and shortcomings – and the actual policy dialogue itself. **The policy dialogue does not consist of a mechanical review of matrices but rather a thematic discussion between Government and donors on selected priority issues** identified for their importance and, more specifically, where it is felt that policy dialogue can help move the reform and policy agenda forward.
9. In addition to the PAM content which is periodically monitored and would serve as the basis for the regular policy dialogue, developments may arise from time to time, as well as proposals, decisions, and actions on the part of Government or donors, which would have a significant adverse effect on the ARTF (directly or indirectly). Depending on their importance, these could require a separate policy discussion between the Government and the ARTF donors. Such eventualities include the following main categories:

⁶ It should be kept in mind in this regard that while the Compact has some general benchmarks related to public finance management, the I-ANDS main document does not cover this area in great detail, so as a result the specific PFM indicators required for the ARTF PAM are not in the I-ANDS or Compact. However, the Compact does have a general benchmark on improving public finance management (identical to the corresponding indicator in the aid effectiveness and mutual accountability section of the PAM), which covers the whole gamut of areas in the PFM section of the PAM.

- Those that **impact on the quantity of ARTF resources required** in the current or upcoming year, e.g. events that call for an increase the size of the ARTF recurrent window.
- Those that **affect the quality of spending financed by the ARTF** in the current or upcoming fiscal year, e.g. events that shape the allocations and expenditures of the Core budget.
- Those that **affect progress toward fiscal sustainability**, i.e. achieving a position where domestic revenues cover recurrent expenditures, and therefore have implications for ARTF financing and the quality of expenditures in the future.
- In addition, **major macroeconomic developments**, which are outside the immediate remit of the ARTF but have implications for the ARTF, may also call for policy dialogue.

Structure and Process for Policy Dialogue

10. **The forum for the policy dialogue itself will be the regular ARTF quarterly meetings**, which would avoid setting up a separate and additional meeting structure. It is envisioned that each of the quarterly meetings would focus on a somewhat different aspect of the policy dialogue and PAM. The meetings are also closely tied in with the Government’s annual budget cycle and would both feed into, and receive information from the Working Groups and Consultative Groups under the Compact/ANDS (see Table 1). To ensure harmonization with the JCMB – the primary coordination structure in Afghanistan – the updated PAM and minutes from relevant meetings will be shared with the JCMB secretariat for sharing with the JCMB as appropriate. This will ensure ongoing coordination with existing processes and structures.
11. It should be emphasized that, since the bulk of the indicators in the PAM can be updated not more than once each year, there will not be new information to report on every indicator each quarter. Thus for each of the quarterly ARTF donor meetings, some updated information is likely to be available, but certainly not for the entire matrix. Where appropriate, these updates might form the basis of dialogue, even when they fall outside the schedule of sectors being discussed.
12. As indicated earlier, significant adverse developments when they occur could trigger a process of discussion between the Government and ARTF donors. The process for such policy dialogue (which would be outside the regular quarterly ARTF meetings, unless the timing happens to coincide), would be as follows:
 - The development(s) and any possible harmful implications for ARTF would be identified by the ARTF Administrator, donors, or Government and a short note prepared laying out the issues.
 - The note would be distributed to the ARTF Management Committee and responses would be sought from the ARTF donors and Government.
 - Depending on demand from ARTF donors, a special ARTF donor meeting could be held.
 - Based on the outcome of the donor meeting, policy discussions would be held with the Government through an appropriate mechanism.
 - It would be expected that a shared understanding of the issues and concerns would be reached between the Government and ARTF donors, and that mutually satisfactory approaches to addressing them would be developed.
13. Finally, it is proposed that **this process would be reviewed by the Government and ARTF donors** after it has been in place for a long enough period to assess how it is working. This

review could occur in December 2007, with a view to making changes effective in July 2008. In the meantime, as emphasized earlier, the PAM itself will be treated as a living document and minor adjustments and changes in the details will be made as required, with full transparency and information sharing.

TABLE 1: INDICATIVE ANNUAL TIMELINE IN 2007

Month	Government's Budget	Government's ANDS	ARTF dialogue	Other
March-April Hamal	Beginning of Fiscal Year			
April-May Saur				
May-June Jawza	Initiation of following year's budget process	ADF	Quarterly Meeting	IMF PRGF Review
June-July Saratan	Fiscal strategy note			
July-August Assad	Completion of annual statements			
August-Sept Sunbola				
Sept-Oct Mizzan	Mid-year Budget Review (MYR)		Quarterly Meeting	
Oct-Nov Agrab	Completion of audit of annual statements			IMF PRGF Review
Nov-Dec Qaws				
Dec-Jan Jaddi	Budget hearings		Quarterly Meeting	
Jan-Feb Dalwa				
Feb-March Hoot	Parliament discussion on budget			