

AFGHANISTAN
RECONSTRUCTION TRUST FUND
(ARTF)

AusAID Delivery Strategy
2011 – 2013

LIST OF ABBREVIATIONS

AusAID	Australian Agency for International Development
ADB	Asian Development Bank
AMA	Australian Multilateral Assessment
AREDP	Afghanistan Rural Enterprise Development Program
ARTF	Afghanistan Reconstruction Trust Fund
ASDP	Afghanistan Skills Development Project
CIDA	Canadian International Development Agency
DAFA	Development Assistance Facility for Afghanistan
DBS	Development Banks Section, AusAID
DC	Donor Committee
DFID	UK Department for International Development
EQUIP	Education Quality Improvement Program
FRA	Fiduciary Risk Assessment
HLP	Horticulture and Livestock Program
IMF	International Monetary Fund
IRD	Irrigation Restoration and Development Project
KAM	Kabul-Aybak/Mazar-e-Sharif Power Project
KURP II	Kabul Urban Reconstruction Project Phase II
MA	Monitoring Agent
MC	Management Committee
MISFA	Microfinance Investment Support Facility for Afghanistan
NPP	National Priority Program
NRAP	National Rural Access Program
NERAP	National Emergency Rural Access Program
NSP	National Solidarity Program
OFWM	On-Farm Water Management Project
PAF	Performance Assessment Framework
PAM	Performance Assessment Matrix
PRT	Provincial Reconstruction Team
RC	Recurrent Cost
SC	Steering Committee
SHARP	Strengthening Health Activities for the Rural Poor
SHEP	Strengthening Higher Education Project
USAID	United States Agency for International Development

AFGHAN SOLAR YEAR AND GREGORIAN CALENDAR EQUIVALENT

Afghan Solar Year	Period
SY1381	21 March 2002 – 20 March 2003
SY1382	21 March 2003 – 19 March 2004
SY1383	20 March 2004 – 20 March 2005
SY1384	21 March 2005 – 20 March 2006
SY1385	21 March 2006 – 20 March 2007
SY1386	21 March 2007 – 20 March 2008
SY1387	20 March 2008 – 20 March 2009
SY1388	21 March 2009 – 20 March 2010
SY1389	21 March 2010 – 20 March 2011
SY1390	21 March 2011 – 20 March 2012

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EXECUTIVE SUMMARY

The Afghanistan Reconstruction Trust Fund (ARTF) is the most reliable and lowest-risk vehicle for delivering international assistance through Afghan systems. It is currently the only feasible mechanism through which donors will meet international commitments to increase the use of government systems to deliver aid in Afghanistan.

Since its establishment in 2002, the ARTF has successfully mobilised over USD4 billion in contributions from around 30 donors and has achieved strong results across the country. These include: funding school and road construction; investing in rural infrastructure; and supporting training for teachers, healthcare workers and civil servants. The ARTF has played a vital role in keeping the Afghan Government functioning, paying the salaries of around 250,000 non-uniformed civil servants including 150,000 teachers. Since 2008, the ARTF has also been used as an incentive to promote specific aspects of the Afghan Government's reform agenda, including encouraging fiscal sustainability.

However, the ARTF has not been without its challenges. In some parts of the country progress of ARTF programs has been hampered by lengthy World Bank procurement procedures and at times inadequate implementation support, particularly in conflict-affected areas. Insufficient resourcing at the Bank's country office has been a major challenge. Finally, while donors have committed to providing more on-budget support, the Afghan Government's low absorptive capacity and fiscal performance constrains the scale and pace of donor assistance through government systems.

Recognising these challenges and the ARTF's importance to Australia's program and to Afghan development generally, AusAID has developed this ARTF Delivery Strategy. The strategy is unique, in that it covers a single modality that contributes to the achievement of several of AusAID's strategic development priorities in Afghanistan. It sets out how Australia will engage with the ARTF and key stakeholders over the next three years to ensure that the ARTF remains an effective mechanism through which to address Australian priorities and support Afghan development. In line with our goal of building the Afghan Government's capacity to deliver basic services and provide economic opportunities to its people, the three objectives of the strategy are to:

- 1. Shape the strategic direction of the ARTF to reflect Afghan priorities and Australian interests.** Australia will reduce the share of our contribution that is 'preferenced' to specific programs to better align our funding with Afghan priorities and the mutually agreed ARTF Financing Strategy. In parallel, we will increase our engagement in the ARTF Steering Committee, Strategy Group and other important working groups to ensure Australian interests are reflected in these forums.
- 2. Improve the effectiveness of the ARTF to safeguard Australian funds and promote efficiency in aid allocations.** Australia will provide a multi-year funding commitment to improve predictability of aid flows. In parallel, we will implement a Performance Assessment Framework for ARTF contributions to review progress against the strategy. We will actively support ARTF supervision reforms and, where necessary and appropriate, provide resources to complement these efforts.
- 3. Improve the delivery of key national programs in health, education, rural development and governance, especially in Uruzgan.** Australian officers from Kabul and Canberra will actively participate in supervision missions for specific programs. Further, based on the ARTF's new framework for third party monitoring of Investment Window projects, AusAID will develop a monitoring plan for Uruzgan across each ARTF sector. Australia will also support additional capacity building of relevant line ministries to enhance their supervision and monitoring.

The ARTF has been central to the Australian aid program in Afghanistan since our first contribution in 2003. Consistent with an expanding aid program in Afghanistan, Australia will commit to providing \$150 million to the ARTF over three years (2010-11 to 2012-13). As a relatively modest donor in Afghanistan, this represents a significant increase in Australian funding to the ARTF and would retain Australia's position as one of the top ten donors to the Trust Fund.

However, a greater financial contribution alone will not afford Australia the requisite influence over the management and program decisions of the ARTF that is needed to achieve these objectives. More effective engagement with our key partners will also be essential. Accordingly, we will step up our engagement with the World Bank on several levels: in Afghanistan at a program and policy level, at the corporate headquarters level between Canberra and Washington, and at the higher Executive Board and political levels. We will develop a stronger partnership with the Afghan Government to achieve mutual priorities and promote reform initiatives, and cooperate closely with like-minded donors to further areas of mutual interest.

The Delivery Strategy will provide specific guidance for this engagement, and will outline how Australia will create more opportunities to engage in policy dialogue with the Government of Afghanistan, the World Bank and other donors.

SUMMARY OF OUR APPROACH

Australia's ARTF engagement directly supports AusAID's overall strategy in Afghanistan by :

Building the Afghan Government's capacity to deliver basic services and provide economic opportunities to its people

To achieve this goal, we will:

Shape the strategic direction of the ARTF to reflect Afghan priorities and Australian interests

- Australia will reduce the share of our contributions that is 'preferenced' to specific programs to better align our funding with Afghan priorities and the mutually agreed ARTF financing strategy.
- We will allocate resources in Kabul and Canberra to more actively engage in the ARTF steering group, strategy group and other important working groups to ensure Australian interests are reflected in these forums.

Improve the effectiveness of the ARTF to safeguard Australian funds and promote efficiency in aid allocations

- Australia will provide a multi-year funding commitment (2010-11 to 2012-13) to improve predictability of aid flows.
- We will implement a Performance Assessment Framework for ARTF contributions to review progress against the strategy.
- We will actively support ARTF supervision reforms and provide resources to complement these efforts where necessary and appropriate.
- We will advocate amongst donors for, and actively participate in, regular independent evaluations of the ARTF.

Improve the delivery of key national programs in health, education, rural development and governance, especially in Uruzgan

- Australian officers from Kabul and Canberra will actively participate in supervision missions for specific programs relevant to Australia.
- We will develop a monitoring plan for Uruzgan across each ARTF sector and agree this with the World Bank and Government of Afghanistan.
- Australia will support additional capacity building of relevant line ministries to enhance their supervision and monitoring of ARTF programs and to promote their participation in supervision in Uruzgan.

At all levels, Australia's work will be characterised by:

More effective engagement with the World Bank, Afghan Government and donors in Afghanistan and headquarters

- Coordinated government advocacy at high-level international meetings of World Bank staff and other donors.
- Stronger partnership with the Afghan Government to achieve mutual priorities and promote reform initiatives.
- Cooperation (and co-funding arrangements) with like-minded donors to further areas of mutual interest.

1. AUSAID OBJECTIVES & THE AFGHAN CONTEXT

Australia's development activities in Afghanistan are informed by Australia's Strategic Approach to Aid in Afghanistan 2010-2012. This document is informed by and responds to the 'Kabul Process', 'Inteqal', or the transition to Afghan authority, and the challenges of operating in a demanding, conflict-affected environment.

1.1 Australia's Strategic Approach to Aid in Afghanistan 2010-2012¹

AusAID activities in Afghanistan are part of a broader whole-of-government effort that includes interlinked diplomatic, development and military elements. AusAID's overall objective in Afghanistan is to support broader Australian Government efforts by building the Afghan Government's capacity to deliver basic services and provide economic opportunities to its people. AusAID's objectives for Afghanistan, both nationally and in Uruzgan, centre around four key pillars:

- Enhancing basic service delivery in health and education;
- Supporting rural development and livelihoods;
- Improving governance and the effectiveness of the Afghan Government; and
- Supporting vulnerable populations.

These pillars are aligned with Afghan Government priorities as articulated in the Afghan National Development Strategy 2008–2013 (ANDS).

1.2 The Kabul Process & Transition

At the Kabul Conference in July 2010, the Afghan Government released a Prioritisation and Implementation Plan for the Afghanistan National Development Strategy (ANDS). This plan refined the objectives of the ANDS into a series of Afghan-owned National Priority Programs (NPPs)² focused on agricultural and rural development, human resource development, economic infrastructure and investment, as well as governance and the rule of law. The NPPs aim to facilitate donor alignment with clearly articulated Afghan priorities, and their creation represents a strong step towards a completely Afghan-led development agenda.

The Kabul Conference saw Australia, and the international community, commit to delivering at least 50 per cent of development assistance through Afghan Government systems (ie. on-budget) and to directing 80 per cent of development assistance to the 22 NPPs. These commitments echo the declaration of donors and partner governments in Paris (2005) and Accra (2008) to increase aid effectiveness by aligning development assistance with partner government plans, policies and systems. Recognising that the implementation of the Kabul Conference principles will take time, the Afghan Government regards the Kabul Conference as the beginning of a process – the 'Kabul Process'. By supporting the Kabul Process, donors and partner governments agree to the prioritisation and allocation of resources in line with Afghan priorities, thereby creating opportunities for improving the effectiveness and efficiency of aid expenditure.

At the Kabul Conference, the Afghan Government also announced a timeframe for the transition of security responsibility to Afghan National Security Forces by 2014. This was reiterated at the North Atlantic Treaty Organisation (NATO) Lisbon Conference. The transition plan, articulated in the 'Joint Framework for Inteqal', includes initial governance and development benchmarks that, following further refinement, will play a role in

¹ http://www.usaid.gov/au/publications/pubout.cfm?ID=8732_2914_8593_8681_5910&Type=

² The National Priority Programs are Afghan-led, Government-delivered development programs : <http://www.mfa.gov.af/kcs/ANDS%20PIP%20Vol%201%20-%20English.pdf>

determining the timeline for transition in individual provinces and districts. As they stand, these benchmarks relate to service delivery, the ability of the government to lead development planning efforts, and improvements in the rule of law and public perceptions of government. As the date for transition to Afghan authority approaches, Australia remains acutely aware of the need to prepare the Afghan Government for the increase in its responsibilities.

1.3 Operational Challenges in the Afghan Context

The delivery of development assistance in Afghanistan faces a number of difficulties. Insecurity, corruption, low government capacity and fragmentation of donor assistance all pose serious challenges to the design, delivery and monitoring of aid activities.

Ongoing conflict and insecurity remains a fundamental impediment to development progress. Insecurity inhibits the delivery of basic health and education services, prevents the construction of necessary infrastructure and curtails job-creating, private sector activity. Insecurity is also at the heart of uneven development progress across Afghanistan. Significant effort is required to specifically tailor the methods of aid delivery to a conflict-affected environment such as Afghanistan.

Corruption is a major constraint on Afghan development. Afghanistan is ranked 176 out of 178 on Transparency International's Corruption Perception Index.³ A 2010 report by the United Nations Office on Drugs and Crime (UNODC) found that corruption was a bigger concern for the population than insecurity or unemployment.

Further, the Afghan Government is plagued by low capacity at all levels. Three decades of war have severely impeded Afghan Government institutions and their capacity to deliver basic services, justice and security. It has also eroded links between national and sub-national levels of government. Major challenges include poor levels of education and qualified personnel, underdeveloped budget planning and implementation capacity, and weak transparency and accountability mechanisms. Improving government capacity will be essential to long-term Afghan development.

Donor coordination in Afghanistan also presents a major challenge. Some donors have taken responsibility for promoting development within provinces where their troops are based. This approach has provided some impressive development gains but it has also, at least in part, contributed to aid fragmentation and made it difficult for the Afghan Government to coordinate development assistance effectively. Australia has a particular focus on Uruzgan province, where Australian civilian and defence personnel work as part of a multinational Provincial Reconstruction Team (PRT). However, the majority (around 80 per cent) of assistance is delivered at the national level.

2. THE COMPARATIVE ADVANTAGE OF THE ARTF

The ARTF has been a core pillar of Australian assistance to Afghanistan since our first contribution in 2003. It represents a low-risk and effective mechanism for channelling Australian and international aid and its use is in line with AusAID's policy guidelines on the assessment and use of partner government systems for public financial management and procurement⁴. Supporting development activities that address the above operational and political considerations constitutes a significant challenge to which the ARTF has proven well suited. As Australia's development assistance program in Afghanistan expands, and

³ Transparency International Corruption Perception Index 2010, <http://www.transparency.org/policy_research/surveys_indices/cpi/2010/in_detail#1>.

⁴ AusAID, Guideline: Assessing and Using PGS for PFM and Procurement

Australia maintains a commitment to work through Afghan Government systems, the ARTF is expected to remain at the centre of Australian development efforts for the foreseeable future.

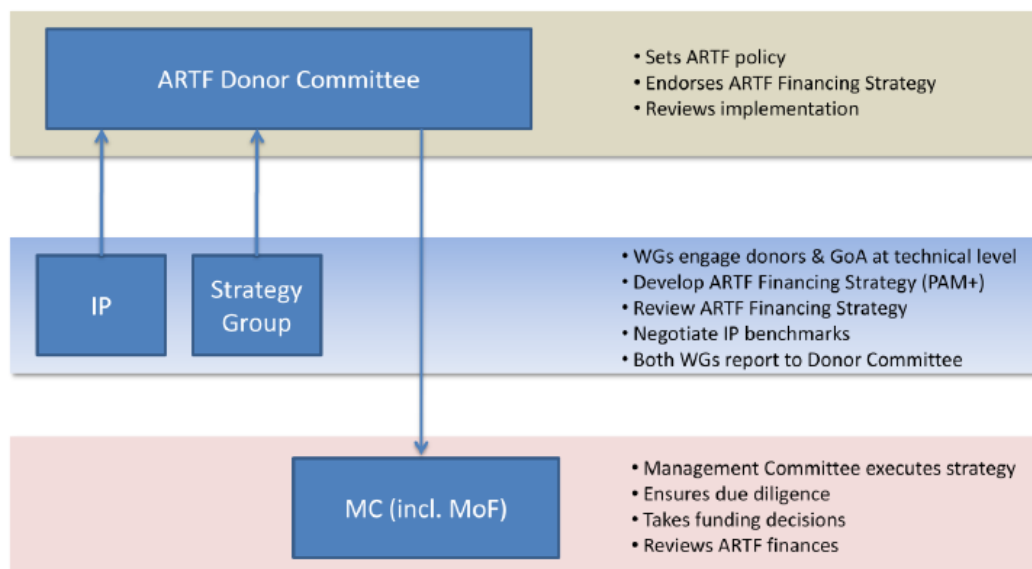
2.1 How the ARTF Works

The ARTF is a partnership between the international community and the Afghan Government for the improved effectiveness of reconstruction and development efforts in Afghanistan. It pools donor resources into a single trust fund account (administered by the World Bank) and disburses these in accordance with jointly agreed objectives and pre-defined fiduciary controls.

The ARTF Management Committee (MC) is responsible for key management decisions, including the approval of investments. It is comprised of the Islamic Development Bank, the Asian Development Bank, the United Nations, the Afghan Ministry of Finance, and the World Bank as administrator (see fig. 1). Every month, the Management Committee makes decisions on proposed allocations, which are translated into funds through Grant Agreements signed between the World Bank and the Afghan Government.

Allocations from ARTF funds are made through two ‘windows’. 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 grants for national development programs under the development budget.⁵ Total donor contributions to the ARTF have been steadily increasing and, at the end of Afghan Solar Year 1389⁶ total pledges were estimated at over US\$1 billion, a 38 per cent increase in donor contributions from the previous year⁷. Accordingly, the World Bank, as administrator of the Trust Fund has taken on an even greater role in the coordination and management of an expanded investment portfolio.

Fig. 1: ARTF Governance Arrangements (see Annex 2 for more details)



Source: World Bank

⁵ Afghanistan Reconstruction Trust Fund Information, available <http://siteresources.worldbank.org/INTAFGHANISTAN/Resources/Afghanistan-Reconstructional-Trust-Fund/ARTF_information.pdf>

⁶ March 2010 – March 2011

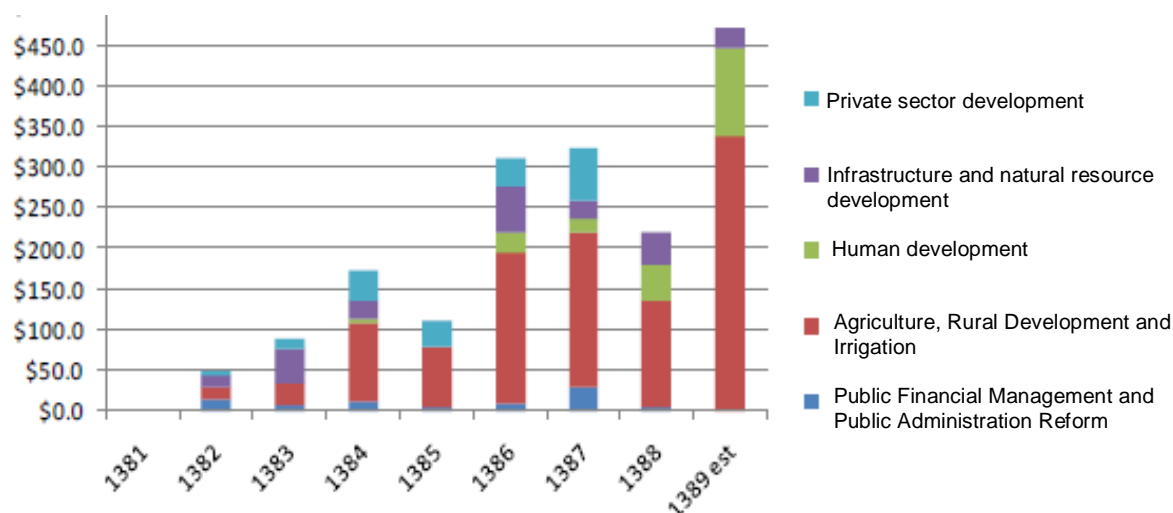
⁷ World Bank, ARTF Administrator’s Report on Financial Status as at March 2011

2.2 Achieving AusAID’s Strategic Objectives

The ARTF is one of the most efficient and effective mechanisms through which to achieve AusAID’s strategic objectives in Afghanistan. While Australia can, and will, continue to implement a small number of bilateral programs across several sectors, as a mid-sized donor, the ARTF is the only mechanism that allows Australia to contribute on a wide scale across every Afghan province.

Through its ‘Investment Window’, the ARTF funds investment projects across 15 Afghan line ministries in five sectors (see Fig. 2) that cover three of AusAID’s Country Strategy Pillars: enhancing basic service delivery in health and education, supporting rural development and livelihoods, and improving governance and the effectiveness of the Afghan Government (the final pillar - supporting vulnerable populations - relates to humanitarian assistance and falls outside the scope of the ARTF). Supporting the ARTF therefore allows Australia to make strategic investments at scale, while at the same time, the pooled funding mechanism minimises the transaction costs for the Afghan Government.

Fig 2: Annual ARTF Investment Window Commitments 1381-1389 / 2002-2010 (USD millions):



Source: World Bank

Nationally, ARTF-funded programs have reported significant development gains across Afghanistan over the past nine years. Some examples include:

Investing in basic service delivery

The ARTF has contributed to the construction of more than 800 schools, the organisation of more than 8,000 School Management Committees and the financing of more than 2,500 school improvement plans. In addition, it has trained approximately 45,000 teachers. This support has contributed to the dramatic increase in school enrolments - from around one million in 2001 (virtually none of whom were girls), to over seven million today, including over 2.5 million girls.

The ARTF also supports the national health program implemented by the Ministry of Public Health (MoPH) and various NGO which delivers basic healthcare to 85 per cent of Afghans across all provinces. Importantly, the BPHS has prioritised service provision for women, as well as for children for whom women are the primary caregivers. Around 20,000 community health workers - half of them women - have been trained and deployed throughout the country, increasing access to family planning and boosting childhood vaccinations.

Investing in agriculture and rural development

The National Solidarity Program (NSP) is at the core of the ARTF investment portfolio. It seeks to strengthen community level governance and improve rural access to social and productive infrastructure and services. The NSP is unprecedented in its scale and reach across all 34 provinces across Afghanistan, bringing the Government closer to communities. The program has helped to identify and manage over 45,000 community-based infrastructure projects - such as wells, clinics and roads – in over 25,000 communities throughout Afghanistan. Evaluations to date also show significant evidence of empowerment of Community Development Councils (CDCs), improved community relations, and increased public faith in the system of government in villages reached by the NSP.⁸ Similarly, through the National Rural Access Program (NRAP), local communities across Afghanistan are better connected to rural services and economic opportunities. ARTF financing of NRAP has contributed to the rehabilitation of over 10,000 km of rural roads, supporting the employment of hundreds of thousands of local workers and allowing rural populations to benefit from year-round access to basic services and facilities.

The ARTF's Horticulture and Livestock Program (HLP) is providing farmers with both technical and financial support to rehabilitate existing orchards and plant new ones. Farmers are being trained to adopt improved horticultural practices and are provided with high quality fruit saplings and essential equipment (pruning shears, pesticides, protective clothing, etc.) with grants for up to 80 percent of their total cost. Since November 2007, some 36,500 farmers have been trained. Further, since 2008, 627 hectares of new orchards have been established and significant increases in producer prices for horticultural crops have been recorded, with the price of grapes growing by 20 per cent.

Improving governance

The ARTF is contributing to a range of important governance sector investment projects including public sector capacity building and justice sector reform. For example, the Public Financial Management Reform Project (PFM) has adopted a targeted approach to improve financial systems in the Ministry of Finance and the Control and Audit Office. That ARTF donors contributed 66 per cent of funding to the Afghan Government's core budget in Solar Year 1389 shows increasing donor confidence in Afghan public financial management. Across the spectrum of all programs the ARTF has enabled program managers to plan ahead and scale up the reach of nationwide initiatives.

The Management Capacity Program of the ARTF aims to achieve sustained improved performance in the management capacity of key departments dealing with financial management, human resource management, policy and regulatory design and administration. It provides the means of bringing in critical Afghan management to line ministries as a complement to donor provided technical assistance. The project currently supports 25 line ministries and 261 positions, 102 of which have been contracted.⁹

The Justice Sector Reform Project (JSRP) supports the Government's National Justice Sector Strategy (NJSS) by enhancing the capacity of the three justice institutions (JIs) (Ministry of Justice, Supreme Court and Attorney General's Office) to deliver legal services to the Afghan people. The JSRP focuses on: enhancing capacity of justice sector institutions through improvements to human resource management, physical infrastructure and

⁸ Randomized Impact Evaluation of Phase-II of Afghanistan's National Solidarity Programme (NSP), July 2010
<http://www.nspafghanistan.org/files/BCEK-Interim_Estimates_of_Program_Impact_2010_07_25.pdf>

⁹ Afghanistan Reconstruction Trust Fund Quarterly report: September 22, 2010 to December 21, 2010
<http://siteresources.worldbank.org/12E57FE1-7AB6-4924-900B-1A9E60F0C089/FinalDownload/DownloadId-7FEF2B007BDEF31A8F42AB5177B9E48A/12E57FE1-7AB6-4924-900B-1A9E60F0C089/INTAFGHANISTAN/Resources/Afghanistan-Reconstructional-Trust-Fund/ARTF_Quarterly_Report_SY1389_Q3_Sep22-Dec21_10.pdf>

information and communication technology; empowering people through access to legal aid and legal awareness; and strengthening the implementation capacity within justice institutions.

2.3 Achieving Afghan Priorities: The Kabul Process & Transition

On-budget support

The ARTF is uniquely positioned to support the Kabul Process. The ARTF channels all of its funds through Afghan Government systems, and is the largest contributor to the Afghan budget. As such, it is an efficient mechanism for donors to meet Kabul Conference commitments to deliver at least 50 per cent of development assistance through Afghan Government systems.

National Priority Programs

The ARTF provides donors with an efficient and effective mechanism to scale-up support for the Afghan Government’s National Priority Programs, to which donors have committed to direct 80 per cent of their funding by 2013. Although these programs, totalling over USD \$10 billion, go beyond what the ARTF is able to deliver on its own, the core community-based national programs - including the National Solidarity Program, the National Rural Access Program and the Education Quality Improvement Program – are at the heart of both the NPPs and the ARTF portfolio. The ARTF funds 13 of the 22 National Priority Programs under the Investment Window portfolio of development programs, and will likely expand to include new NPPs in the future.

Fig. 3: ARTF funding and National Priority Programs (NPPs):

Governance		Human Resource Development	
NPP	ARTF Project	NPP	ARTF Project
Financial & Economic Reforms	PFM II	Facilitation of Sustainable Decent Work	ASDP
Efficient & Effective Government	Capacity Building for Results Facility	Education for All	EQUIP II
Law & Justice for All	Justice Sector Reform II	Expanding Opportunities for Higher Ed.	SHEP
		Human Resources for Health	E/BPHS/SHARP
Agriculture & Rural Development		Infrastructure Development	
NPP	ARTF Project	NPP	ARTF Project
Water & NRM Development	IRD / OFWM	National Energy Supply	APSDP, KAM, Naghlu
Comprehensive Ag Production	AREDP, HLP & Inputs Supply	Urban Planning Technical Assistance	KURP II
NRAP	NERAP	?	ADB Window
Strengthening Local Institutions	NSP III		

Source: World Bank

Transition

The ARTF is a key mechanism supporting the process of transitioning to Afghan authority. By providing on-budget support for Afghan development priorities, the ARTF strengthens the budget as the main policy tool for directing and allocating resources for priority needs, and assists in building the capacity of the Afghan Government to gradually take control of the country’s own development agenda. The ARTF is already funding core components of the Afghan Government’s development budget and as the Afghan Government prepares to take on a greater leadership role in both security and governance, the ARTF will become a key policy tool for promoting the reforms necessary for gradual transition towards Afghan ownership. The ARTF Recurrent Cost Window and Incentive Program (discussed below) provide significant support for transition.

2.4 Meeting the Operational Challenges Facing Afghan Development

As noted in section 1.3, insecurity, corruption, low government capacity and fragmentation of donor assistance are serious constraints on Afghan development. In this context the ARTF plays an important role in managing both fiduciary and reputational risk for Australia and other donors.

Corruption

For many donors in Afghanistan, the provision of direct on-budget support remains problematic due to capacity constraints, weak public financial management, and the lack of strong accountability mechanisms, particularly on anti-corruption¹⁰. The ARTF, however, has attracted significant donor commitments because of the World Bank's internally robust financial management systems and fiduciary controls – an invaluable asset for donors in a country plagued by perceptions of widespread corruption and mismanagement. Many of the ARTF Investment Window programs are also specifically designed to build the capacity of the Afghan Government at both the national and provincial levels.

Under the ARTF fiduciary framework disbursements are based on eligibility criteria that have been agreed with the Afghan Government and are accompanied by the World Bank's financial management and procurement control systems. Before receiving approval for funding, ARTF Investment Window programs are subjected to fiduciary risk assessments and reviews by World Bank technical experts and systems are reformed in collaboration with World Bank advisers where necessary. World Bank program managers supervise each project, periodically meeting with their Afghan Government counterparts to improve implementation and supervision.

For the Recurrent Cost Window, an independent monitoring agent employed by the World Bank conducts site visits to check funds and ensure that expenditures comply with fiduciary standards and eligibility criteria. Independent audit reports are provided to donors and the Afghan Government on an annual basis. Independent evaluators are also commissioned every three years to review the financial, policy and implementation progress of programs funded through the ARTF.

These controls and corresponding assistance provide the assurances necessary to support government systems in the challenging governance environment of Afghanistan. By delegating financial and risk management responsibilities to the World Bank, donors reduce the burden of implementing appropriate fiduciary safeguards that is associated with the provision of bilateral assistance.

Government Capacity

In addition to the specific governance programs noted in section 2.2 above, the ARTF has also played a vital role in supporting the ongoing functioning of the Afghan Government and it will continue to support its capacity over the long-term, particularly following potential economic shocks caused by the draw-down of military-generated economic activity following 2014.

Through the 'Recurrent Cost Window' of the ARTF, US\$1.7 billion has been disbursed through the Government's operating budget, paying the salaries of around 250,000 non-uniformed civil servants in all 34 provinces of the country and financing half of the non-security costs of government.

¹⁰ DFID, Project Document – Support to the Afghanistan Reconstruction Trust Fund, 2010/11

Fig. 4: Recurrent costs by category (USD millions)

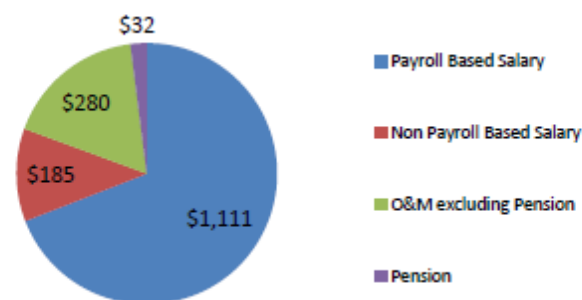
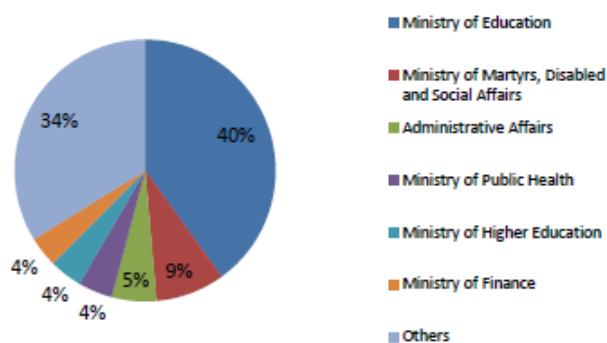


Fig. 5: Recurrent costs by Ministry (USD millions)



Source: World Bank

Since 2008, the ARTF Incentive Program has served to leverage the significant financing the ARTF provides through the Recurrent Cost Window to promote the Afghan Government’s reform agenda and support progress towards fiscal sustainability. The ARTF Incentive Program has generated significant momentum behind the Afghan Government’s reform agenda, providing financial incentives contingent on the achievement of agreed reform benchmarks in three thematic areas: sustaining domestic revenue collection; improving public sector governance; and enabling private sector development.

To date, two reform cycles have been reviewed and the Afghan Government has successfully achieved benchmarks in a range of areas. Quantitative targets were over-achieved, and reforms are expected to proceed further without large risk of backsliding.

Insecurity

Like all development programs in Afghanistan, the delivery of ARTF programs is challenged by Afghanistan’s ongoing conflict and insecurity. Although the ARTF cannot finance security-related activities, by supporting coordinated delivery of development assistance, in collaboration with local stakeholders and the Afghan Government, the ARTF plays an important role in managing this risk and avoiding the exacerbation of conflict. Managing security will be an ongoing need for the ARTF post transition as it will be for all other activities across Afghanistan.

3. PAST CHALLENGES AND LESSONS LEARNED

Despite a strong record of success in delivering development gains across the country, the ARTF faces a number of substantial challenges.

3.1 Procurement Delays

All procurement for projects under the ARTF is conducted following the World Bank’s standard procedures. Although this approach helps provide a degree of quality assurance and promotes transparency, World Bank procedures have been criticised for their rigidity and inapplicability in a fragile context such as Afghanistan. World Bank-funded procurement controllers who have been deployed to Line Ministries have in some cases added to this problem - complicating the procurement process rather than streamlining it. Much of the procurement for provinces must be undertaken in Kabul and resources allocated to

procurement have been insufficient to cater for the considerable time and effort required to achieve efficient procurement outcomes.

In some cases this approach has resulted in lengthy delays which frustrate program implementers and can create disenfranchisement in local communities. For example, the NSP, widely considered to be the most successful of the ARTF programs, has reported it faces challenges when attempting to set up the program in new areas. NSP staff will go into the area and identify potential implementing partners. However, the Bank procurement processes will often take over six months to be completed and partners to be approved, by which time opportunities for using these partners may have been lost.

Attempts have been made to address this issue through the establishment of streamlined procedures for implementation in high-risk areas, and the World Bank is proposing to deploy procurement specialists to Line Ministries to help facilitate, rather than simply just control, procurement processes. Significant work is still needed to ensure efficient procurement of goods and services for all ARTF contracts.

3.2 Supervision and Implementation Support

Despite the impressive nation-wide successes noted above, the ARTF has struggled to make progress in some areas of the country. Many programs have only a minimal project program implementation presence in the Southern and Eastern provinces, or simply do not operate there at all. Progress in Uruzgan, in particular, has been sporadic and several well-performing national programs (such as EQUIP) have performed poorly in the province.

The security situation legitimately inhibits the World Bank's ability to supervise projects in some parts of the country. However, given that 60 per cent of the country is affected by conflict the World Bank cannot simply limit its operations to more secure provinces. Furthermore, insecurity alone cannot explain the inconsistency in the World Bank's supervision between projects – with some programs instigating regular supervision missions outside Kabul but others relying on weak reporting systems from Afghan Government sources. Greater implementation support from World Bank staff to Government counterparts during project implementation (including participating in supervision missions that go beyond Kabul) is required to capitalise on the successes of national programs and support their continued expansion into the south and east.

There has, however, been some notable progress with regard to supervision, with Bank task teams increasingly adopting beneficiary /community participatory monitoring, third party monitoring, and other innovative solutions to mitigate project risks. The Bank currently supports an innovative system for third party monitoring of the national health program. Further, lessons learned from this monitoring system are informing the design of a new third party monitoring framework for the Investment Window portfolio of programs.

4. FUTURE CHALLENGES

4.1 Managing Growth

The potential growth in the ARTF in response to international moves to deliver increased levels of assistance on-budget will carry major challenges for both donors and the World Bank. A balance must be found between the donor community's commitment to channel more aid through government systems using ARTF, and the Fund's capacity to deliver on a significantly scaled-up budget. In the first instance, the Bank must deploy the necessary and apposite resources to manage a substantially increased portfolio of activities. The World Bank recently negotiated an increase in its management fee to reflect its expanded role as

administrator of the ARTF. This will lead to greater expectations on World Bank performance in managing and negotiating the future directions of the ARTF.

The World Bank will need to extend its scope beyond fiscal policy management and financial monitoring to focus on more effective delivery and monitoring of the development programs under the Investment Window, particularly in conflict-affected areas. This involves having greater programmatic oversight and improved performance tracking of ARTF funded programs across the health, education, governance, agriculture and rural development sectors. A greater commitment by the Bank is also required to adequately resource and encourage increased engagement of staff in conducting social assessments (such as gender, social accountability and conflict analysis) during program development and implementation. This will help ensure that social (and not only financial) safeguards are fully addressed in all ARTF programs.

A recent review of multilateral organisations by DFID pointed to limited staff presence, inflexible procedures and poor collaboration with other partners as the major weaknesses in World Bank performance in fragile contexts, and these criticisms can be readily applied to Afghanistan¹¹. Recognising these shortcomings, the World Bank has undertaken a set of internal reform processes to enhance the effectiveness of its support to fragile states. This includes adopting a 'two track' operational approach, focusing on: a) identifying 'quick wins' to respond to urgent needs; and b) a longer-term strategy to work with and through country institutions¹². Greater efforts will also be focused on results monitoring of development outcomes through strengthened internal reporting and monitoring mechanisms and the ARTF will be a key test of these commitments.

4.2 Afghan Government Implementation Capacity

Similarly, while the Afghan Government expects to receive more on-budget support, absorptive capacity and fiscal performance will determine the scale and pace of donor assistance through government systems. Significant progress has been made by the Government in public financial management and fiscal policy reform. However institutional capacity across some of the key delivery ministries remains weak. According to an assessment by the World Bank, this has resulted in poor budget execution and delayed implementation of some ARTF-funded activities¹³. Expanded ARTF support, therefore, will need to be carefully sequenced and selective, based on the performance and capacity of each ministry to manage and deliver a set of national programs. There needs to be a balance between the government's desire for greater on-budget support and its capacity to mobilise an increased budget across a large number of national programs in an efficient and transparent manner. The World Bank and donors to the ARTF have the responsibility to help the Afghan Government overcome these capacity gaps through targeted technical assistance and fast-tracking initiatives to train senior civil servants.

As Administrator of the ARTF, the World Bank should take greater responsibility for providing assistance to the Government to ensure ARTF programs are delivered more effectively. Capacity support will need to be expanded beyond fiscal policy management to encompass broader sector-specific expertise and program management. As the Government prepares to take on a greater role in coordinating development assistance through its National Priority Programs, capacity support will be critical to ensure Afghan Ministries are ready to make a transition from a program-based approach in aid delivery to a sectoral one (ie. where the Government can gradually assume responsibility for the management of the operational budget across a whole portfolio of activities). This will be

¹¹ DFID, Multilateral Aid Review, 2011

¹² World Bank, World Bank Response to UK Multilateral Review on the International Development Association.

¹³ World Bank, Afghanistan Reconstruction Trust Fund Quarterly Report, March – June 2010.

important for promoting greater Government ownership of the development agenda and the sustainability of ARTF programs in the long-term.

4.3 Donor Engagement

As contributors to the ARTF, donors too have a responsibility to ensure that their investments are well managed and to hold the World Bank to account in areas where performance is lacking. The onus also rests with donors to take a more proactive role by providing assistance where appropriate to help the World Bank do its job more effectively. These activities should complement (rather than replace) the World Bank's obligations as administrator by providing value-added inputs to improve the efficiency and effectiveness of the ARTF. In the spirit of mutual accountability, responsibility rests with all partners to the ARTF (donors, the World Bank and the Government) to ensure it remains the most effective and accountable mechanism for supporting a coordinated development effort in Afghanistan.

In recognition of the importance of a coordinated approach to development and security transition in Afghanistan, the Director General of AusAID convened a high level consultation meeting with the heads of DFID, CIDA and USAID in July 2011 to identify critical areas for joint donor intervention. One of the agreed priorities was advocacy to the World Bank on the issue of resourcing for the ARTF. This effort has also been sustained on the ground in Kabul, through AusAID-led donor discussions on current ARTF-related issues and concerns. Through these processes, AusAID has taken on a greater policy engagement role among the key donor group to ensure Australian interests are reflected in the broader discussions with the World Bank and the Afghan Government on ARTF reforms and future directions.

5. ARTF REFORMS AND PROGRAM DIRECTIONS

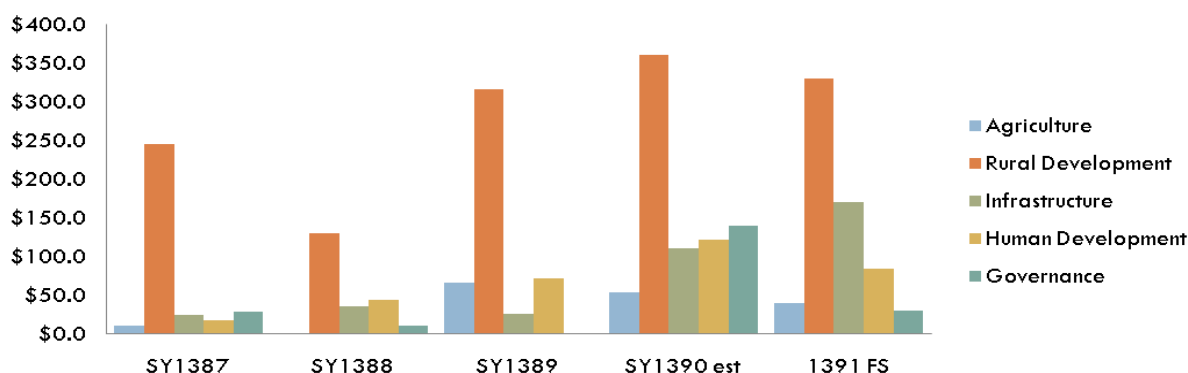
Drawing on the World Bank's experience managing a \$21 billion portfolio of over 1,000 Trust Funds worldwide, recommendations from two independent evaluations of the ARTF and input from the Afghan Government and donors in Kabul, the ARTF is attempting to adapt to changing circumstances and development priorities. A range of reforms to improve ARTF effectiveness are currently underway.

5.1 Financing Strategy

The ARTF Financing Strategy proposes a comprehensive framework for donors and the Government to articulate joint funding priorities for the three years from SY 1389 to 1391 (March 2010-March 2012). The framework was approved by the Management Committee and has completed its first year of implementation. Under the Financing Strategy, the ARTF will expand support to the National Priority Programs of the Afghan Government across five sectors: agriculture, rural development, infrastructure, human development and governance. This will include scaling up existing programs as well as funding new programs in agriculture, water, rural enterprise development, economic growth and options for a new infrastructure window (see fig. 6).¹⁴

¹⁴ World Bank, ARTF Administrator's Report on Financial Status as of September 2010.

Fig. 6: Actual and proposed ARTF Sector Commitments under the Financing Strategy for Solar Years 1387 - 1391¹⁵



Source: World Bank

5.2 Incentive Program

Donors, the Afghan Government and the World Bank are currently discussing significant changes to the Incentive Program. These changes aim to strengthen opportunities for policy dialogue between donors and the Afghan Government, and increase the effectiveness of the ARTF as a tool for leveraging policy reform. The objectives of the Incentive Program will remain the same – promoting reform and improving fiscal sustainability – but areas of reform will be broadened and a longer-term, three-year approach will be adopted.

The new Incentive Program Working Group will agree the policy benchmarks with Government and will recommend the level of ARTF recurrent cost support every year. The supervision structure of the new Incentive Program will be strengthened (with missions every two months and biannual technical reviews) to make it more conducive to ownership and cooperation.

5.3 Infrastructure Window

In the light of considerable demand for large scale infrastructure investment, in 2010 the Government of Afghanistan asked the World Bank to look into the possibility of establishing a window within the ARTF to enhance the ability of donors to finance priority infrastructure projects. The World Bank and the Asian Development Bank (ADB) will enter into an agreement that would allow the ADB to take responsibility for the preparation and supervision of some infrastructure projects under ARTF financing. This provides a new mechanism for donors, including Australia, to support large-scale infrastructure investments in Afghanistan.

5.4 Improved Performance Monitoring

Current performance monitoring for the ARTF is heavily weighted towards measuring the effectiveness and impact of the ARTF Recurrent Window. For example, the ARTF Performance Assessment Matrix (PAM) only covers broad areas under public financial management, aid effectiveness and mutual accountability, public administration reform, with only a few indicators measuring progress in health and education. While performance in these areas is an important indicator of institutional capacity and fiscal performance, it does not provide an assessment of development outcomes across the sectors supported by

¹⁵ Proposed ARTF Financing Strategy, presented to donors on 6 March 2011

ARTF. The work of the ARTF Monitoring Agent is also limited to investigating expenditures relating to the Recurrent Window.

As funding to the Investment Window is projected to scale up over the next three years, the World Bank needs to apply the same level of rigour and scrutiny to the Investment Window as it does the Recurrent Cost Window. With the help of donors, the World Bank is therefore investigating options for improved performance tracking of ARTF funded investment programs. These include broadening the PAM to include indicators across the health, education, governance, agriculture and rural development sectors (PAM+) and employing an external Monitoring Agent to independently verify outputs in areas that are not readily accessible for regular supervision. Australia has already indicated willingness to assist in improving performance tracking of the Investment Window, and is exploring support options with the Bank, including making available Australian monitoring and evaluation experts to provide input into the development of the PAM+. The World Bank has also undertaken to provide assistance to the Government in developing an ARTF Results Framework to measure its own progress against ARTF program implementation.

6. AUSTRALIAN ENGAGEMENT – A MORE STRATEGIC APPROACH

6.1 Australia's Objectives

Australia's future engagement with the ARTF will be focused on the priorities of the Afghan Government, in alignment with the objectives of AusAID's Strategic Approach to Aid in Afghanistan 2010-2012. It will be targeted at areas where Australian assistance will have the most impact, drawing on AusAID experience in similar fragile contexts in the Asia-Pacific region and relying on in-house technical expertise, for example, in public financial management, rural development and microfinance.

To support AusAID's Country Strategy in Afghanistan, we will focus on three objectives:

- 1) to shape the strategic direction of the ARTF to reflect Afghan priorities and Australian interests;
- 2) to improve the effectiveness of the ARTF to safeguard Australian funds and promote efficiency in aid allocations; and
- 3) to improve the delivery of key national programs in health, education, rural development and governance, especially in Uruzgan.

6.2 A Multi-year Commitment Increasing Over the Medium-Term

Consistent with an expanding aid program in Afghanistan, Australia plans to double its contribution to the ARTF from \$25 million per year to a base allocation of at least \$50 million per year for the next three years. As a relatively modest donor in Afghanistan, this represents a significant increase in Australian funding to the ARTF and would retain Australia's position as one of the top ten donors to the Trust Fund. Further, given the projected doubling of the aid budget by 2015-16 (to meet the 0.5 GNI target), the aid program to Afghanistan is likely to increase significantly. If Australia continues to provide at least 50 per cent of this budget through Afghan Government systems using ARTF, by 2015-16, the potential annual contribution to the ARTF could reach over \$100 million (although other mechanisms for providing on-budget support will also be explored).

Multiyear commitments to the ARTF, when delivered in support of the implementation of the ARTF Financing Strategy, will improve aid predictability and assist the Afghan Government with long-term budget planning and execution. This approach to ARTF financing underlines the principles of aid effectiveness, encourages good donor practice and promotes greater government accountability.

This expanded, multiyear commitment to the ARTF is expected to provide Australia with some financial leverage to influence the management and program decisions of the ARTF, and also present more opportunities to engage in policy dialogue with the Government of Afghanistan, World Bank and other donors on national development priorities. However, a greater financial contribution alone will not necessarily guarantee Australia these opportunities and leverage, and must be combined with determined efforts to engage more effectively with key partners, as outlined at 6.3 and 6.4. This investment plan would be revised annually based on the ongoing positive performance of the ARTF, its relevance for meeting the development objectives of the Australian aid program in Afghanistan, the priorities of the Afghan Government and its capacity to deliver on ARTF supported activities.

6.3 Increased Engagement with the World Bank

As Australian and other donor contributions to the ARTF increase and the investment portfolio expands, the Australian Government will step up our engagement with the World Bank on several levels: on the ground at a program and policy level, through engagement on the ARTF's various governance and technical committees as well as monitoring in Uruzgan; at the corporate headquarters level between Canberra and Washington; and at the higher Executive Board and political levels. This engagement will need to be coherent and effective at each level and will include offering targeted assistance, to be determined through discussion with the Bank, as part of a broader and more effective partnership. Annex 6 provides a more detailed strategy for managing our policy engagement with the World Bank.

Program and policy engagement in Afghanistan

To safeguard our current and future investment in the ARTF, Australia is already actively engaged in donor discussions on the ARTF Financing Strategy, but strengthened engagement as it continues to evolve will be critical to ensure Australian objectives and views are fully represented. Australia will continue to actively participate in the ARTF Strategy Working Group to influence policy and programming decisions.

Through our participation at ARTF Donor Committee meetings, Australia's representatives in Kabul will be advocating for greater oversight and performance tracking of Investment Window programs, with a particular focus on increasing delivery and effectiveness of ARTF programs in conflict-affected areas. Australia will also continue to advocate and assist the World Bank with regular monitoring missions to Uruzgan to assess progress of ARTF funded activities in the province.

Although the ARTF has contributed to improving the lives of women and girls in Afghanistan through funding of health, education and rural development programs, a more concerted effort by the World Bank needs to be made to ensure that the ARTF supports the achievement of gender-specific targets of the Afghan Government. This includes formulating a gender strategy for the ARTF that combines a lateral approach which supports gender mainstreaming across all activities of the Investment Window, as well as a vertical focus through direct investments in gender development. Not only is this necessary to ensure the ARTF remains responsive to gender issues in Afghanistan, but it also sends a clear message that gender actually matters. Australia played a prominent role in recent advocacy of gender issues to the World Bank and will continue to explore opportunities to engage in gender issues through the ARTF. One of the first steps will be an in-country mission by AusAID's gender adviser to discuss key gender concerns with the World Bank, Afghan Government and other in-country partners. The aim of the visit is to develop a Gender Action Plan, which will provide a framework to help target AusAID's interventions in maximising gender outcomes in Afghanistan.

At the technical and working levels, Australia will work more closely with the World Bank by providing expertise, as well as supplementary funding where appropriate, to strengthen performance assessment work, address some of the weaknesses in World Bank processes or spearhead activities in the conflict affected regions of the south and southeast, including Uruzgan. Australia's complementary support for the World Bank's 'Trust Fund to Support the Strengthening of Service Delivery at the Community Level' (\$7m, 2010-13) and Australia's proposed public financial management assistance program are both examples of this. The Trust Fund is piloting new ways of implementing programs in insecure areas, exploring new approaches to monitoring and evaluation and integrating lessons learnt into World Bank activities. In addition, the Trust Fund will support analytical work on local institutions, corruption and the impacts of conflict. Australia's public financial management assistance program proposes to engage closely in the implementation of the USD 21.5 million 'procurement reform' component of the World Bank Public Finance Management Project (PFMRP II), which aims to "build procurement capacity of staff throughout government". To ensure this project maintains a focus on supporting procurement 'facilitation' rather than simply 'control', AusAID will source dedicated procurement advisory support from a Managing Contractor to inform engagements with the World Bank and other donors around the project.

Increased engagement over the next few years will place a higher demand on staff time and resources. A larger in-country team, led by a Minister Counsellor in Kabul will enhance Australia's political representation and meet additional program oversight demands. Ready access to in-house advisers (in areas consistent with Australian sectoral interests such as economics, rural development and microfinance) to assist with program development and reviews, particularly in areas where AusAID has relevant experience to offer, will also be required. AusAID will develop resourcing a plan in order to ensure that there is appropriate resourcing in both Canberra and Kabul to support these positions.

Program and policy engagement with the World Bank in Washington

Australia will engage with the World Bank in Washington primarily through the two permanent representatives at the Bank's headquarters: Australia's representative on the World Bank Executive Board, and his AusAID advisor. These two positions give AusAID regular opportunities to meet directly with senior World Bank staff and working level/project staff working on Afghanistan. This facilitates early engagement on key issues impacting on the Bank's operations in Afghanistan, as well as ongoing dialogue on new projects and initiatives.

Coordinated advocacy at high-level international meetings

AusAID will continue to raise performance issues and advocate that the World Bank provide sufficient resources for procurement, program management and supervision in its Kabul Office. We will advocate for this at high-level international meetings where AusAID is represented by the Minister for Foreign Affairs or senior officials, including the Director General of AusAID. Joint advocacy with other donors will be central to this approach, and Australia will work closely with other partners who share an interest in shaping World Bank reform processes, particularly in the lead-up to transition.

For example, the Minister has regular contact with the President of the World Bank on the margins of international meetings, including the London and Kabul conferences, UN conferences and the World Economic Forum. Senior AusAID officials also have regular meetings with senior World Bank management through Spring and Annual meetings and six-monthly high-level partnership meetings.

AusAID will also use three-yearly replenishments of the Bank's International Development Association as the primary point for coordinated policy influence to push for developments that will benefit Afghanistan and improve the efficiency and effectiveness of the Bank's activities in Afghanistan.

6.4 Increased Engagement with Other Partners

The Afghan Government

In 2011, the Government of Afghanistan for the first time has become formally involved in joint decision-making on the prioritisation and allocation of ARTF funding, through its membership of the Management Committee. While this is important progress toward mutual accountability and strengthened government leadership of the development agenda, it also creates a new dimension in negotiating the strategic direction of the ARTF. Importantly, it provides a strong platform for direct Australian engagement with the Afghan Government on the National Priority Programs and the broader development agenda. Although a relatively modest donor in Afghanistan, Afghan Government officials at both the senior and working levels have confirmed Australia's good reputation as a responsible donor. This provides a solid basis on which to strengthen Australia's development objectives in Afghanistan at the national level, as well as influencing the development priorities of the Afghan Government in Uruzgan province.

AusAID will actively engage in the Incentive Program working group as a key forum for engaging with the Afghan Government. This donor group will negotiate policy reform benchmarks with the Afghan Government to be incorporated into the ARTF Incentive Program. Australia has already assumed "co-ownership" with Canada of the 'Sector Financial Governance' theme during the preparation and implementation of the new Incentive Program. This will allow stronger Australian involvement in the Incentive Program and facilitate discussions/negotiations with the Afghan Government. It will also represent an opportunity to directly support the Afghan Government's reform process (e.g. through technical advice / expertise) where possible. In addition, where there are opportunities to engage at the program level, AusAID's officers in Kabul will actively engage with programs for which Australia has a specific interest (such as EQUIP and NSP). AusAID anticipates increasing the level of engagement on the development of the proposed PFM project over the coming year. This will build on technical support provided by Australia to the Ministry of Finance in 2010.

Australia will also support additional capacity building of line ministries to enhance the delivery and effectiveness of ARTF activities, particularly where there is political willingness and strong leadership. For example, Australia will continue to assist the Afghan Ministry of Finance in the area of public financial management and will provide assistance to line ministries through the Development Assistance Facility for Afghanistan (DAFA). Recognising that weak monitoring and evaluation systems negatively impact on the effectiveness of ARTF activities, assistance will be focused on building the capacity of line ministries in performance tracking and reporting, particularly through the strengthening of internal monitoring and reporting mechanisms. Where technical assistance is provided, it will be demand-driven and coordinated with existing capacity development programs of the Afghan Government.

The donor community in Afghanistan

Through the management and decision making structures of the ARTF, AusAID will increase its engagement with like-minded donors to further areas of mutual interest. The elements of our approach outlined in this strategy document will be the basis for initiating such discussions with other donors.

In particular, Australia will seek to:

- work alongside other donors at multilateral meetings to shape World Bank performance, particularly in the lead up to transition;
- work with the US and UK to influence more effective delivery of services in the conflict-affected areas in the south and southeast of Afghanistan;
- engage closely with other donors during ARTF reform processes such as the development of a framework for third party monitoring of the ARTF Investment Window, and development of a strategy for transitioning ARTF financing from a programmatic approach towards a sectoral one;
- co-fund existing programs with other donors to improve ARTF program implementation, for example through the development of technical needs assessments, sector-wide performance assessments, public expenditure tracking surveys in relevant sectors.

The AusAID-funded World Bank ‘Trust Fund to Support the Strengthening of Service Delivery at the Community Level’ could also be expanded to include other donors, and we will continue to engage the broader donor communities in the outputs of this work.

6.5 Sharing Lessons from Uruzgan

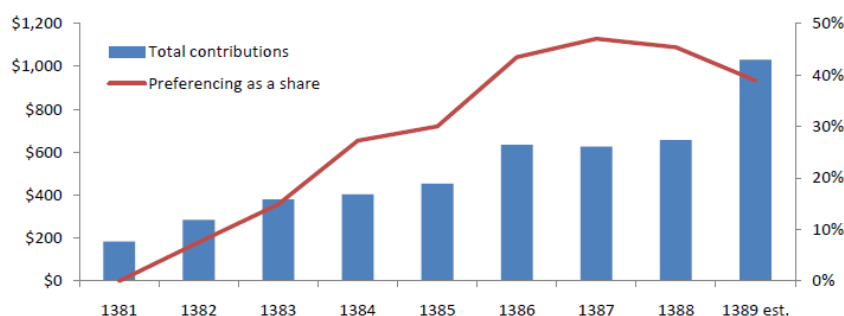
Australia has been actively supporting the implementation and monitoring of ARTF programs in Uruzgan province through direct bilateral assistance and increased collaboration with the World Bank and other partners. These activities are intended to create an enabling environment for more effective delivery of national programs to Uruzgan, particularly in the context of transition. These efforts are beginning to demonstrate results on the ground and we will seek opportunities to translate them into better ARTF policies and practices at the national level. This includes:

- constructive dialogue with the World Bank and MoE to ensure recommendations from the 2010 EQUIP supervision mission in Uruzgan are integrated into national level programming;
- highlighting good practice in integrating social and environmental safeguards in the design and implementation of NRAP projects; and
- sharing lessons learned from AusAID-funded research under the Trust Fund to Support the Strengthening of Service Delivery at the Community Level.

6.6 A Gradual Phasing Out of ‘Preferencing’

World Bank policy does not permit earmarking of donor funds for particular activities in the trust funds that it administers. However, donors can express ‘preferences’ for projects or programs for a portion of their overall ARTF contributions. These ‘preferences’ represent non-binding commitments from the ARTF Administrator that the allocated funds will be used for the preferred purpose. ARTF allows 50 per cent of donor funds in any one solar year to be preferenced, but in practice additional preferencing has been possible and in some cases major donors have preferenced almost all of their entire contributions.

Preferencing undermines a key principle of pooled funding, which is that donors together agree on overarching funding objectives and contribute funds on this basis, taking joint ownership of the achievements of the trust fund portfolio as a whole. The Financing Strategy articulates these objectives and funding priorities for the ARTF and thus donor preferencing directly undermines this mutually agreed framework.

Fig. 7: ARTF Contributions for Solar Years 1381 – 1389 (USD millions)¹⁶

Source: World Bank

In keeping with ARTF rules, Australia's contributions have been evenly divided between preferenced and unpreferenced funding (48.5 per cent and 51.5 per cent, respectively - see Annex 3 for a breakdown). Going forward, Australia will look to phase out preferencing completely by 2013-14 and where preferencing is applied, use it more strategically to further Australian strategic priorities. Reductions in the preferenced share of Australia's contributions will, however, have to be precipitated by the increased engagement with the Financing Strategy noted above and demonstrable improvements in both the World Bank and the Afghan Government's capacity to manage increased funding flows.

6.7 Improved Performance Monitoring

To ensure that ARTF funds reach their intended beneficiaries, the World Bank has a number of existing monitoring and accountability measures. Commensurate with the increased engagement outlined in this strategy, AusAID will implement further measures to complement these existing arrangements and provide further checks and balances:

Improved World Bank performance monitoring

Australia will continue to work with other donors to advocate for greater World Bank oversight of development activities, particularly at the point of delivery, and where there is an opportunity, Australia will assist the World Bank with the development of performance monitoring initiatives (such as the new Performance Assessment Matrix) through the contribution of financial and technical resources. AusAID will work with like-minded donors to ensure the regular implementation of independent ARTF reviews. The last external evaluation was in August 2008 and we will advocate that a new review be completed in 2011, and actively participate in the review.

AusAID performance assessment framework

To complement the ARTF's Performance Assessment Matrix, an AusAID Performance Assessment Framework (PAF - Annex 1) will be used to measure progress against the objectives of this Strategy. The PAF sets out key indicators to assess the effectiveness of Australia's engagement on the ARTF. Information will be collected based on the depth of Australian engagement with key ARTF stakeholders to influence ARTF policies and management decisions, in particular as it relates to the delivery of Australian assistance in Uruzgan province. It provides an evidence base for judging the success of AusAID's interventions over the three year period of the Delivery Strategy and will inform the future directions for Australian engagement on the ARTF.

¹⁶ ARTF Quarterly report: September 22, 2010 to December 21, 2010

One of the key assumptions of the PAF is that the ARTF is an internally robust mechanism and its functions are trusted to deliver a set of Australian objectives defined in the Delivery Strategy. The purpose of the PAF is to test this assumption through a series of targeted interventions by AusAID. As a relatively modest donor to the ARTF, AusAID does not expect to affect change in the overall operational effectiveness of the ARTF. This is a function of the collective effort of all stakeholders to the ARTF. AusAID's engagement will be selective and focused on areas where it can most critically have an influence, as detailed in Section 6 above. These include, for example, areas where AusAID has a comparative advantage through technical inputs (agriculture, or monitoring and evaluation); where there are opportunities to build on existing bilateral programs (such as PFM support) or; where AusAID has significant experience to offer (conflict-affected areas). The PAF, therefore, is intended to provide a set of data that will help AusAID assess its progress against the objectives of the Delivery Strategy through various inputs. In other words, it measures the extent to which certain outcomes may have occurred - or may have occurred *to a better standard* - due to AusAID's interventions.

To strengthen the implementation of the PAF, it will be linked to other M&E components including the ARTF PAM+ and performance tracking for Uruzgan detailed below. It is envisaged that M&E experts will be engaged to provide technical oversight and verification of ARTF progress in Uruzgan and as well as to provide possible technical assistance to the World Bank/ Government of Afghanistan in the development of the ARTF PAM+.

Formal performance tracking in Uruzgan

A proposed monitoring plan for Uruzgan will be developed and agreed with the World Bank and Government of Afghanistan for annual monitoring missions across each ARTF sector. It is envisaged that this plan would be developed in consultation with other donors in Uruzgan. Consideration will be given to a division of labour giving donors lead responsibility for tracking performance in specific sectors.

An M&E expert will be engaged on an annual basis to undertake a comprehensive assessment and verification of ARTF program outputs in Uruzgan province based on existing data and further research. This activity is intended to provide a comparative analysis of ARTF program delivery at the provincial level over a three year period and tracks implementation progress in relation to the rest of the country. This information will help assess whether AusAID's intervention at the national level is influencing greater development outcomes in Uruzgan, thereby creating an environment conducive to gradual transition to Afghan-government leadership and delivery of basic services in the province.

Regular reviews of AusAID's engagement

In order to make the PAF more responsive to management decisions, it will be integrated within AusAID's internal quality processes, including Quality at Implementation reviews and the Afghanistan Country Program Performance Framework to be developed later this year. AusAID will draw on the technical expertise of in-house advisors and external expertise in undertaking these assessments.

7. RISK MANAGEMENT

In addition to the risks and challenges identified throughout this document, a SWOT analysis and risk matrix are provided at Annex 5 and 6. The overall assessment suggests that this Strategy is a medium risk approach. The probability of the Strategy not meeting its objectives due to negative external factors is considered to be medium, but with a high impact. However, a number of mitigation measures need to be put in place in order to minimise the impact and reduce the overall riskiness of the Strategy to acceptable levels.

External assessments of the stability of the macroeconomic environment by other partners are also considered in developing a risk management strategy for the ARTF. For example, the World Bank relies on the International Monetary Fund's (IMF) assessment of the broad regulatory and fiscal policy framework – particularly in the banking sector where the IMF focuses its support to the Afghan Government – to manage the risks to the Recurrent Cost Window. Linkages between the ARTF and the IMF programs in the area of macroeconomic reform also provide a strong platform for joint political advocacy on critical reform agendas (the serious delays in ARTF contributions in mid-2011 as the result of the Afghan Government's failure to agree on an IMF package are an indication of these linkages).

The risk of channelling a greater proportion of Australian assistance through the one mechanism requires us to work closely with the World Bank and Government of Afghanistan to influence programming and policy decisions. As noted above, to safeguard our investments in the ARTF Australia will engage more actively with the ARTF's key governance and strategy bodies (such as the Donor meetings and technical working groups) and vigorously pursue Australian interests at all levels of our engagement with the World Bank.

The lack of other options for delivering basic services on-budget, means that the ARTF is currently the only viable mechanism for meeting Australia's commitment to work through government systems. While other mechanisms will be explored, this is a long-term process that requires detailed analysis and fiduciary risk assessment in accordance with AusAID guidance on working in partner systems. However, as an appropriate risk management strategy, it may be necessary for AusAID to undertake an early assessment of alternative options for opting out, or shifting funds, from the ARTF should it no longer meet our objectives in Afghanistan. As part of this early assessment, AusAID may need to consider direct support to well-performing ministries with mature national programs, support for sector wide approaches, or delegated agreement with other donors to manage Australian funds in a particular sector.

8. CONCLUSION

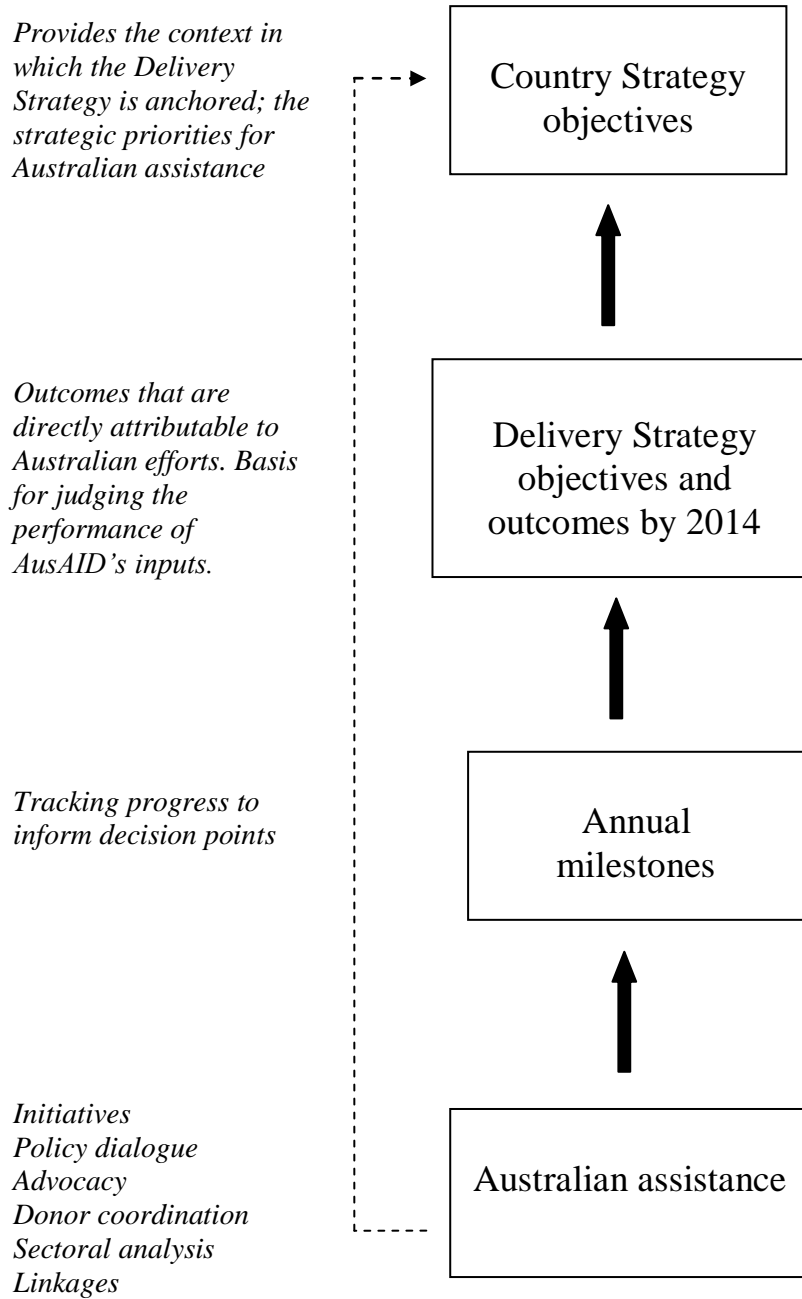
Given the strong results delivered by the ARTF since its establishment in 2002 – achieved in one of the world's most challenging development environments – it is unsurprising that donors see it as the most effective and low-risk vehicle for funding the Afghan Government's development agenda.

With international commitments to increase the use of government systems to deliver aid in Afghanistan, the ARTF's importance to international efforts will only grow. This growth represents a unique opportunity for both the Afghan Government and donors to broaden assistance into new sectors and strengthen collaboration around the key development priorities for Afghanistan. This expansion will, however, raise significant challenges that will continue to require the full commitment and cooperation of donors, the Afghan Government and the World Bank.

As Australia's aid program in Afghanistan continues to expand, and a greater proportion of this assistance is delivered through the ARTF, these challenges will require a new approach and a fresh engagement with the ARTF if it is to remain at the centre of Australian development efforts. The strategy that this document has outlined – which is founded on a larger and more predictable multi-year funding arrangement and stronger engagement with the ARTF's key delivery partners, especially the World Bank – will help ensure that Australia continues to achieve the best possible development outcomes from these contributions.

ANNEX 1 – ARTF Performance Assessment Framework (PAF)

Schematic Representation



Explanatory notes

The main objective of the Performance Assessment Framework (PAF) for the ARTF Delivery Strategy is to provide AusAID with the evidence needed to inform Australia's ongoing engagement on the ARTF. It is intended as an assessment tool for tracking progress against the three objectives of Australia's engagement strategy, which are guided by the broad strategic priorities for Australian assistance in Afghanistan:

- a) to shape the strategic direction of the ARTF to reflect Afghan priorities and Australian interests
- b) to improve the overall effectiveness of the ARTF to safeguard Australian funds and promote efficiency in aid allocations
- c) to improve the delivery of national programs in health, education, rural development and governance, especially in Uruzgan

Each row of the PAF provides information relating to the objectives of the Delivery Strategy and consists of five columns:

Supporting AusAID's Country Strategy Objectives (Column 1)

What is the ARTF expected to achieve? The objectives of the Delivery Strategy are situated under the AusAID Country Strategy for Afghanistan, which provides the broader context for our engagement on the ARTF. It also helps to tell us why our support for the ARTF is important in political and development terms. As such, it represents an important advocacy and management tool for the Afghanistan Country Program.

Supporting ARTF Delivery Strategy Objectives (Column 2)

What are we trying to influence? These are **measurable** objectives that are expected to be achieved through targeted AusAID interventions. These objectives have been identified based on areas where the Australian aid program is expected to have the most influence, such as areas where Australia has a comparative advantage (eg. agriculture), where there are opportunities to build on existing bilateral activities (eg. PFM support), or where Australia has significant experience to offer (eg. conflict-affected areas).

Delivery Strategy Outcomes (Column 3)

How do we know if we have been successful? These represent the outcomes expected to be achieved at the end of the three-year Delivery Strategy cycle. It provides information to help AusAID tell us if desired changes to the ARTF (ie. strategic direction, effectiveness/efficiency and contributions to national development) **occurred** or **occurred with greater quality** as a result of AusAID's efforts.

Annual Milestones (Column 4)

How do we know if we are making progress? Annual milestones are established at the beginning of each financial year to coincide with the quality reporting cycle and early program planning and management decisions. They allow us to track progress each year in order to achieve our objectives by 2014/15. Some milestones will be predefined and set over a three year period; others will evolve each year as new priorities are identified or new opportunities arise for Australian assistance. This flexibility enables AusAID to use information from the PAF to choose sectors, reassess priorities and guide interventions and actions during the implementation of this Strategy.

Australian interventions (Column 5)

What actions are required by AusAID? This sets out the activities, initiatives, policy dialogue, partnership agreements etc. that are necessary to achieve each objective. The opportunities identified in Section 6 of the Delivery Strategy provide a basis for actions to be undertaken by the country program.

Performance Assessment Framework (PAF) Matrix

– what our delivery strategy objectives are expected to influence	- where Australian aid program adds value	- how we know if we have achieved our objectives in three years time	- how we track progress towards strategy objectives (annual milestones)	- how we work towards the strategy objectives
1. Shape the strategic direction of the ARTF to reflect Afghan priorities and Australian interests				
Alignment with AusAID's Country Strategy for Afghanistan	Support for Australian priority sectors in education, health, rural development and governance	<ul style="list-style-type: none"> - The Financing Strategy is endorsed and is effectively implemented - Australian priority sectors are represented in the Financing Strategy. - Programs supported by the Financing Strategy are high-quality and are well-performing 	<p>BENCHMARKS 2011/12</p> <ul style="list-style-type: none"> - Strategy Group endorsement and implementation of the Financing Strategy - Financing Strategy allocations aligned with Australian sectoral priorities - Australian membership on the Strategy Group <p><u>SOURCE:</u> Minutes from Steering Committee meetings; Administrator's Quarterly Reports; Qualitative survey of ARTF stakeholders</p>	<ul style="list-style-type: none"> - Active engagement on the SG to ensure alignment with Australian priorities - Active working-level engagement on priority programs : EQUIP, SHARP, NSP, NRAP and PFMRP.
Alignment with Afghan Government priorities	Australian multiyear commitments that are unpreferred	<ul style="list-style-type: none"> - Increasing donor commitments to direct 50% on budget and 80% in alignment with NPPs - Financing Strategy aligned with NPPs - ARTF continues to channel funding through government systems - Government systems are sound and support efficient allocation of ARTF funds 	<p>BENCHMARKS 2011/12</p> <ul style="list-style-type: none"> - ARTF Delivery Strategy approved - Minsubs agreed by Minister and announcement for multiyear funding - Greater alignment of bilateral program with NPP thematic areas <p><u>SOURCE:</u> Delivery Strategy registered; Ministerial announcements; Aidworks; Qualitative survey of ARTF stakeholders</p>	<ul style="list-style-type: none"> - ARTF Delivery Strategy developed and peer-reviewed before endorsement - Advocate the WB for critical analysis of the linkages between ARTF and NPPs
Support for transition to Afghan Government leadership	Supporting national-provincial linkages in public financial management and governance	<ul style="list-style-type: none"> - Reform benchmarks in governance, fiscal policy management and public sector performance are consistently met - ARTF supports strengthened governance and accountability at the sub-national level - ARTF programs reaching a greater number of provinces across Afghanistan [proxy for government capacity to deliver basic services] - ARTF programs gradually supporting transition to Government authority 	<p>BENCHMARKS 2011/12</p> <ul style="list-style-type: none"> - Provincial governance targets included in the Incentive Program - New governance program under the ARTF is implemented - PFM mission conducted with outcomes providing options for AusAID intervention <p><u>SOURCE:</u> Minutes from IPWG and Strategy Group meetings; Administrator's Quarterly Reports; Report from PFM mission</p>	<ul style="list-style-type: none"> - Recommendations from PFM mission to align PFM support with the objectives of transition - Engage with GIRoA and the WB on the transition process - Advocate for provincial planning and budgeting as part of IP benchmarks - Cooperate with WB on extending analysis of district financial flows and service delivery to conflict-affected regions

- what our delivery strategy objectives are expected to influence	- where Australian aid program adds value	- how we know if we have achieved our objectives in three years time	- how we track progress towards strategy objectives (annual milestones)	- how we work towards the strategy objectives
2. Improve the effectiveness of the ARTF to safeguard Australian funds and promote efficiency in aid allocations				
Effective monitoring of recurrent cost expenditures	Strengthening the operation of the ARTF Monitoring Agent	<ul style="list-style-type: none"> - Increasing rate of eligibility of recurrent cost expenditures by line ministries - Improved MA coverage of recurrent costs 	BENCHMARKS 2011/12 <ul style="list-style-type: none"> - MA reports presented to Steering Committee - MA reports provide disaggregated data for line ministries - Increasing percentage of recurrent costs monitored directly by MA 	<ul style="list-style-type: none"> - Advocate for MA reports to be available to donors and formalise reporting to the SC - Work with MA to provide disaggregated data by ministry to identify opportunities for AusAID intervention
Achievement of Financing Strategy disbursement targets	Supporting improved disbursement systems	<ul style="list-style-type: none"> - Investment window disbursements meet Financing Strategy targets. - Incentive Program benchmarks are consistently met by GIROA. 	BENCHMARKS 2011/12 <ul style="list-style-type: none"> - Quarterly progress report from MOF to Steering Committee - Incentive Program benchmarks finalised for 'Sector Financial Governance' 	<ul style="list-style-type: none"> - Advocate (in Kabul and Washington) for increased flexibility in World Bank procurement processes and more resources for procurement and financial management - Support innovative programming approaches and project preparation to ensure new programs are financed rapidly. - Collaborate with Canada on technical input to finalise sectoral financial governance benchmarks.
Improved ARTF performance management	Strengthening ARTF monitoring functions	<ul style="list-style-type: none"> - A functioning PAM+ and monitoring agent for the Investment Window - Independent Evaluation is conducted and results provide basis for informing the future directions of ARTF - Increase WB and GIROA monitoring of ARTF programs in conflict-affected regions 	BENCHMARKS 2011/12 <ul style="list-style-type: none"> - Third Party MA for the Investment Window contracted - Independent Evaluation conducted in 2011/12 and results presented to SC - PAM+ finalised and includes gender disaggregated data with agreed formalised reporting to the Steering Committee each quarter <p>SOURCE: Minutes from Steering Committee and Strategy Group meetings</p>	<ul style="list-style-type: none"> - Advocate for greater WB resourcing for supervision and social assessments - Advocate WB for timely conduct of the Independent Evaluation - TA support to GIROA and WB in the development and operationalisation of the PAM+ including strengthening of government monitoring and reporting systems. - Develop ARTF resourcing plan to support implementation of the Delivery Strategy.
3. Improve the delivery of key national programs in health, education, rural development and governance, especially in Uruzgan				
Improved	Support for	- National progress in Australian priority sectors	BENCHMARKS 2011/12	- Commission evidence-based analysis from

- what our delivery strategy objectives are expected to influence	- where Australian aid program adds value	- how we know if we have achieved our objectives in three years time	- how we track progress towards strategy objectives (annual milestones)	- how we work towards the strategy objectives
development outcomes in health, education, rural development and governance across Afghanistan	Australian priority sectors in health, education, rural development and governance	<ul style="list-style-type: none"> - Improved delivery of Australian funded programs across Afghanistan (eg. EQUIP, SHARP) - Strengthened capacity in Australian supported line ministries (MAIL, MOE, MOPH, MRRD, MOF) 	<ul style="list-style-type: none"> - The ARTF Performance Assessment Framework captures and reports aggregate outcome and impact data of ARTF funded programs across the health, education, rural development and governance sectors - Greater linkage of bilateral activities with ARTF programs <p><u>SOURCE:</u> ARTF PAM+; Project documents</p>	<p>projects supported by the Service Delivery Trust Fund for Conflict Affected Areas</p> <ul style="list-style-type: none"> - Ensure ARTF programs are integrated into sectoral plans and where possible, identify opportunities for increased alignment with bilateral programs - Source dedicated procurement advisory support from a Managing Contractor to inform engagements with the World Bank and other donors around project procurement. - Engage AusAID technical advisors and relevant sections (eg. Development Banks) on the development and monitoring of ARTF programs across priority sectors and cross cutting themes.
Improved development outcomes in health, education rural development and governance in Uruzgan	Support for innovative program delivery in conflict-affected areas	<ul style="list-style-type: none"> - Improved development outcomes in Uruzgan - Increasing number and quality of ARTF funded programs in Uruzgan province - Comparative development results in Uruzgan is improving in relation to the rest of the country 	<ul style="list-style-type: none"> - Development of a monitoring framework for Uruzgan and survey instruments - Development of a monitoring plan for Uruzgan with ARTF stakeholders - Reports from qualitative survey of ARTF stakeholders on governance reform and capacity development <p><u>SOURCE:</u> ARTF PAM+; Qualitative survey</p>	<ul style="list-style-type: none"> - Engage M&E expert to develop and implement an ARTF performance results for Uruzgan and report on an annual basis - Cooperate with the WB, GIRoA and other donors to develop and agree a monitoring plan for ARTF-funded programs in Uruzgan

ANNEX 2 – ARTF Governance Structure

Management Committee

Membership of the Management Committee (MC) comprises the World Bank, the Islamic Development Bank, the Asian Development Bank, the UN and most recently, the Afghan Ministry of Finance, which became a full and formal member in September 2010. The MC is responsible for reviewing progress and for key management decisions, including the approval of investment projects proposed for ARTF financing. The MC meets monthly and the World Bank acts as Secretariat for the MC.

Donor Committee (aka Steering Committee)

The Donor or Steering Committee (DC) consists of all MC members and all ARTF donors, including Australia. The DC is responsible for the development and progress of the ARTF Financing Strategy. The DC meets three times a year in Kabul and often at least once per year in Washington or another major donor capital.

Administrator

The World Bank is the Administrator and is responsible for monitoring and reporting on ARTF performance. A key responsibility of the Bank is to ensure that funds are disbursed in accordance with the agreements with donors and the Afghan Government and in line with defined and agreed-upon fiduciary standards and performance measures. As the ARTF Administrator, the World Bank is responsible for managing the fund in Washington, working with the Afghan Government to prepare new investment projects, supervising implementation of the existing portfolio and running a full ARTF fiduciary team including procurement and financial management staff.

Strategy Group

The Strategy Group was formally incorporated into the ARTF governance structure in 2010 to advise the DC on the Financing Strategy and to strengthen the functions of both the MC and DC. The Strategy Group is composed of key donors with technical expertise in Kabul (including Australia), the Afghan Ministry of Finance and the Administrator as secretariat and facilitator.

Incentive Program Working Group (IPWG)

Similar to the Strategy Group, the Incentive Program Working Group is an advisory body that provides technical input for deliberations by the Donor Committee (rather than a decision-making structure). The IPWG's key mandate is to negotiate policy reform benchmarks with the Afghan Government which, if approved by the Donor Committee, will then subsequently be incorporated into a Memorandum of Understanding with the Ministry of Finance under the ARTF Incentive Program. The World Bank acts as facilitator and is responsible for undertaking the Technical Review of benchmarks for approval by the IPWG. Membership of the IPWG consists of the top three donors to the ARTF (US, UK, Canada), a representative from the group of smaller donors and the Ministry of Finance. Australia delegates representational responsibilities to Canada but consults actively in all negotiation processes. Australia is seeking a rotational term with Canada on the IPWG.

The two windows

ARTF allocations are made through two 'windows': the Recurrent Cost (RC) Window and the Investment Window. The RC Window reimburses the Government for a certain portion of eligible and non-security related operating expenditure every year, predominantly funding civil service salaries. The Investment Window provides grant financing for national development programs in the development budget. The MC 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 Afghan Government.

Recurrent Cost (RC) Window

Domestic revenues are still insufficient to cover the costs of Government. The RC Window is therefore ensuring the basic functioning of Government including the delivery of services such as healthcare and education. Given that around 60 per cent of the non-uniformed Afghan civil service is accounted for by teachers, the Ministry of Education has in general received around 40 per cent of total ARTF resources. Ministries of Public Health, Foreign Affairs, Labour and Social Affairs have also been major recipients. 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 financial 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's Monitoring Agent (PriceWaterhouseCoopers) continually monitors the eligibility of expenditures.

Investment Window

The Investment Window funds the Afghan Government's National Priority Programs that are delivering development and infrastructure across the country. As of the end of SY1389 (March 20, 2011), 19 active ARTF investments totalled US\$793 million¹⁷. Since commencement, the ARTF has made investments worth over US\$1.7 billion across most of the ANDS sectors. Half the value of ARTF active investments is in the agriculture and rural development sector. More recently, ARTF has invested in the power, justice and capacity development sectors.

¹⁷ World Bank, ARTF Administrator's Report on Financial Status as of April 20, 2011.

ANNEX 3 – Summary of Australian Funding 2002/03 – 2009/10

As at the end of SY 1389 (March 2011) Australia stands as the eighth largest donor to the ARTF in that year.

Since 2006, approximately half of Australia’s contributions have been directed towards five key programs: the National Solidarity Programme, the National Rural Access Programme, the National Microfinance Program and National Health and Education Programs:

Table 1. Summary of Australian Funding

ARTF programs	2002/03 (\$m)	2003/04 (\$m)	2004/05 (\$m)	2005/06 (\$m)	2006/07 (\$m)	2007/08 (\$m)	2008/09 (\$m)	2009/10 (\$m)	2010/11 (\$m)	Total (\$m)
Education Quality Improvement Program	-	-	-	-	-	8.00	2.50	3.00	-	13.50
National Solidarity Program	-	-	-	-	1	10.00	2.00	3.00	-	16.00
National Rural Access Program	-	-	-	-	1	5.00	1.00	3.00	-	10.00
Microfinance Investment Support Facility for Afghanistan	-	-	-	-	2.25	5.00	2.00	-	-	9.25
Basic Package of Health Services	-	-	-	-	-	-	2.50	3.00	-	5.50
Reintegration	-	-	-	-	-	-	-	-	6.00	6.00
Not directed to any program	4.00	9.00	5.00	5.00	5.75	5.00	11.00	13.00	-	57.75
Total	4.00	9.00	5.00	5.00	10.00	33.00	21.00	25.00	6.00	118.00

ANNEX 4 – SWOT Analysis

		Positive	Negative
Internal		<p>STRENGTHS</p> <ul style="list-style-type: none"> - Australia has a good track record as a top ten donor to the ARTF - Active engagement in ARTF working groups and donor meetings - AusAID has the financial, personnel and military capacity to support the work of the WB/GIRoA where it is needed - AusAID has the technical expertise (in PFM, agriculture) and experience of operating in conflict-affected regions to offer - Strong bilateral program that is aligned with ARTF activities (including Service Delivery TF to support WB operations in conflict environments) - Growing in-country team with dedicated resources for ARTF management and oversight - New strategic direction for Australian engagement on ARTF 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> - A relatively modest donor to the ARTF and therefore, not a strategic partner for the WB/GIRoA. But is taking an increasing share of intellectual burden through engagement on various working groups - Limited influence on WB/GIRoA. But is increasingly more influential among the donor group
External		<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> - Expanding country program will give Australia greater financial leverage over ARTF policy directions - AusAID bilateral engagement creating opportunities for strengthening ARTF support (PFM, agriculture, gender) - Upcoming IDA rounds provide platform for advocating broader WB reforms (esp. improving performance in conflict-affected states) - Increased human and financial resourcing will allow greater flexibility for enhanced engagement with the WB, GIRoA and other donors 	<p>THREATS</p> <ul style="list-style-type: none"> - ARTF has not been able to demonstrate development impact or economic gains over the last 9 years - Inadequate resourcing for supervision and oversight by the WB - Inflexible WB procurement processes threaten timely implementation of new activities - Lack of GIRoA capacity and threatens efficient expenditure of funds and effective implementation of ARTF programs, particularly in Uruzgan - Worsening conflict and political volatility may impact ARTF effectiveness (ie. implementation and monitoring)

ANNEX 5 – Risk Matrix

<i>Risk/Assumption</i>	<i>Probability</i>	<i>Impact</i>	<i>Management/Mitigation Strategy</i>
WB supervision, monitoring and procurement structures do not enable effective program management and may undermine transparency and accountability of ARTF programs	M	H	<ul style="list-style-type: none"> - The WB is establishing a third-party monitoring agent to track performance of ARTF investment window programs - The WB is strengthening the design of the PAM+ to include more robust measures of development outcomes and cross cutting themes such as gender and rural connectivity
Lack of Uruzgan provincial government capacity undermines effective delivery and expansion of ARTF programs in the province	M	H	<ul style="list-style-type: none"> - Australia is working with the Uruzgan provincial government to strengthen its capacity to tap into central budget planning processes - Australia is also raising the profile of Uruzgan in Kabul to ensure the province is included in planning processes.
Increasing insecurity in Uruzgan undermines development gains through ARTF programs	H	M	<ul style="list-style-type: none"> - ARTF programs promote community engagement to build local ownership over programs and reduce security risks. - Australia and other partners closely monitor local security conditions and support flexible planning which allows for adaptation of work programs if necessary.
Weak governance and corruption undermines donor confidence in using government systems, and creates unacceptable levels of risk for Australia	M	H	<ul style="list-style-type: none"> - The ARTF relies on the WB's strict internal fiduciary control mechanisms and monitoring agent to monitor Government expenditure of ARTF funds. - The Incentive Program rewards the Government for achievements on agreed reform benchmarks in governance, fiscal management and civil sector reform. It also provides a platform for political advocacy on critical reform points. - Australia is also investing in the PFM sector to improve fiscal policy management and financial accountability of the Afghan Government.
Increased political instability or conflict may	M	H	<ul style="list-style-type: none"> - Work with the WB to ensure social assurances (including conflict

jeopardise implementation progress and effectiveness of ARTF programs			sensitivity) are integrated into project planning, design and implementation.
Weak government capacity limits opportunities for transition and handover of delivery of ARTF programs to Afghan authorities	M	M	<ul style="list-style-type: none"> - Supplement ARTF funding with bilateral support for strengthening institutional capacity (eg. internal monitoring processes, gender mainstreaming), particularly where there is political will. - Advocate the WB to integrate capacity building of Afghan government institutions in program design and implementation. - The WB and GIRoA are working closely on transition points including the fast-tracking of initiatives to strengthen links between the central and sub-national governments (eg. a
Divergent interests of donors, GIRoA and WB means the Financing Strategy priorities are skewed and may not reflect Australian focal sectors (eg. reduced funding to agriculture/rural development in favour of infrastructure)	L	H	<ul style="list-style-type: none"> - The Financing Strategy is a three-year framework (2010-2013) for joint funding priorities across five sectors, four of which are aligned with AusAID's Country Strategy for Afghanistan. - Australia is an active member of the ARTF Strategy Group which negotiates the Financing Strategy with the Government. Our involvement helps ensure Australian interests are represented in the Financing Strategy.
Poor budget execution undermines effective implementation of the Financing Strategy	H	L	<ul style="list-style-type: none"> - The ARTF directly supports the Afghan Government public financial management 'roadmap' which aims to increase budget execution rates across Government.
Failure to meet Incentive Program benchmarks threatens reform efforts and undermines effectiveness of ARTF	M	L	<ul style="list-style-type: none"> - The IPWG (in which Australia is actively engaged) is negotiating with the Government to ensure benchmarks are set realistically within an achievable timeframe.
GIRoA unable to maintain fiscal sustainability targets resulting in over-reliance on ARTF recurrent cost financing and may create opportunities for fungibility	L	L	<ul style="list-style-type: none"> - Projections by the IMF and GIRoA suggests it is on-track to meet revenue targets - The Incentive Program is helping GIRoA to remain on track through incentivised funding for fiscal policy reforms.

ANNEX 6 – Strategy for Managing Policy Engagement with the World Bank

The effectiveness of Australia’s policy engagement with the World Bank is central to achieving the objectives of this Delivery Strategy. While Australia has recently taken on a more prominent role in policy advocacy with the World Bank, a comprehensive approach is necessary to measure the depth of our influence on ARTF management processes over the next three years. This includes a combination of high level engagement with other donors, coordinated messaging through internal and external reviews and dialogue with the World Bank, and where necessary support at the program level to short-circuit World Bank bottlenecks. These efforts are intended to elevate Australia’s policy position on ARTF issues, as well as demonstrate to the World Bank that Australia is willing to take on a greater burden as an emerging key donor to the ARTF.

The table below outlines key areas for coordinated policy dialogue with the World Bank, possible entry points for Australian engagement and likely partners.

Issues – identified areas for engagement	Influence – what we want to see changed	Options/Opportunities	Partners
Resourcing	Increased staffing in Kabul with appropriate high-level skills and experience	Advocacy through the high-level donor group chaired by the Director General, AusAID Annual HLC with WB Senior VP, South Asia Engagement in internal (Australian Multilateral Assessment) and external reviews (WB review of international Trust Funds) to highlight resourcing issues Supplementary support for technical positions, particularly in supervision and implementation support to line ministries.	US, UK, Canada Development Banks Section (DBS) AMA Task Force, DBS UK (through joint funding with existing DFID mechanism)
Performance management	Improved supervision and oversight of ARTF investment programs	Formal advocacy for progress on independent evaluation, PAM+ and third party monitoring through ARTF SC and Strategy Group. AusAID to lead pre-donor meeting before each ARTF	ARTF major donors

		<p>Quarterly SC to agree joint priority issues.</p> <p>Participation in upcoming Independent Evaluation, possibly through provision of AusAID funded TA.</p> <p>Continued facilitation of supervision missions to Uruzgan to ensure lessons learned in Uruzgan are fed into national level planning and programming</p> <p>Participation in mid-term reviews of ARTF programs</p> <p>Piloting new monitoring and reporting practices in Uruzgan and showcasing to ARTF SC</p>	<p>Other ARTF donors</p> <p>Donors in Uruzgan, GIRoA</p> <p>Other donors, GIRoA</p> <p>GIRoA, Implementing partners in Uruzgan</p>
<p>Procurement</p>	<p>Procurement bottlenecks are identified and removed, particularly in conflict-affected areas</p>	<p>Advocacy for improved flexibility in WB procurement processes, particularly in conflict affected areas, through HLCs and engagement on AMA.</p> <p>Engagement on NSP High-risk Areas Approach, possibly through direct support for technical positions.</p> <p>As part of Australia's public financial management assistance program, AusAID will closely monitor the World Bank's procurement reform program and work with other donors to ensure a focus on procurement 'facilitation' rather than simply procurement 'control'.</p>	<p>IDA rounds negotiations, AMA Task Force</p> <p>GIRoA</p> <p>PFM program Managing Contractor</p>