**Sector:** State and civil society (CRS codes 15110-15113)

**Project:** Afghanistan Reconstruction Trust Fund, phases VII-X

2007 65 826*, 2008 65 600*, 2009 65 913, 2010 65 341*

**Programme-/Project executing agency:** ARTF, a trust fund managed by the World Bank

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**Ex post evaluation report: 2014**

<table>
<thead>
<tr>
<th>Phases VII-X</th>
<th>Phases VII-X</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Planned)</td>
<td>(Actual)</td>
</tr>
<tr>
<td>Investment costs (total)**</td>
<td>EUR million</td>
</tr>
<tr>
<td>Counterpart contribution</td>
<td>EUR million</td>
</tr>
<tr>
<td>Funding</td>
<td>EUR million</td>
</tr>
<tr>
<td>of which BMZ budget funds</td>
<td>EUR million</td>
</tr>
</tbody>
</table>

*) Random sample 2014

**) Payments made by 33 donors

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**Description:** The Afghanistan Reconstruction Trust Fund (ARTF) is a multi-lateral trust fund managed by the World Bank. The ARTF presents itself as being similar to budget support for stability within a fragile context in that it acts as a mechanism for the reliable financing of national priorities (investment and running costs), a platform for political dialogue with the Afghan government on key reforms and an instrument for coordinating donors in accordance with an agreed financing strategy. The model chosen was that of a trust fund instead of paying directly into the state budget in the form of budget support in order to mitigate the fiduciary risks in an appropriate manner. The fragile context is reflected in the projects' twin goals of stabilisation on the one hand and improving the living conditions of the population on the other. The projects have been formally associated with a reduced standard in terms of sustainability. The fields promoted by the ARTF are public finances, administrative reform, public infrastructure, rural development, health and education.

**Objectives:** The aim of the programme was (i) to safeguard the ability of the civil service to function, and in so doing ensure the basic provision of social services, and (ii) to implement the Afghan government's development priorities for rural areas. The intention was to contribute to two overall development goals: (i) helping stabilise the Afghan state and (ii) alleviating poverty.

**Target group:** The population of Afghanistan (29.1 million people in 2011).

**Overall rating: 2 (all phases)**

**Rationale:** The ARTF is an important instrument for stabilising the state. It has helped boost public revenue, and supported the core areas of a functioning state. This is also the conclusion of an ARTF evaluation carried out in 2012. In accordance with the government's development priorities, the ARTF financed initiatives including rural programmes whose evaluations revealed satisfactory impacts (roads that can be used at all times of year, water and electricity supply, good governance by village development councils involving women).

**Highlights:** With the ARTF, a successful model has been found for pursuing two distinct goals in a fragile context, much like budget support aimed at combating fragility. A contribution was made towards safeguarding stability while also appropriately combating the fiduciary risks. A study prompted by the evaluation of the Federal Ministry for Economic Cooperation and Development (BMZ) showed that the population perceives an increase in the public services provided by the government - a positive sign despite the alarming security situation.
Rating according to DAC criteria

Overall rating: 2 (all phases)

The four phases VII-X of the ARTF multilateral trust fund have achieved a good result that meets expectations in full. Some of the assessments made in this evaluation are based on existing evaluations of the ARTF as well as two investment programmes that are focal points of the financing provided by the ARTF. The ARTF’s dual objective of stabilisation and improving living conditions is appropriate to the fragile context. The structure of the trust fund, which works efficiently, is suitable for combating the fiduciary risks. Allocation efficiency is high on account of the fund’s multi-sector character. The extent to which the rural programmes primarily financed by the DC contribution have achieved their targets is satisfactory. The ARTF’s contributions to sustaining the core functions of a state are an important instrument for the development and stabilisation of Afghanistan, although concrete developmental impacts are difficult to substantiate. The fragile context justifies a looser standard with respect to sustainability, which was also formally documented in accordance with the FC/TC guidelines. In light of the above, an evaluation of "good" is justified despite the alarming development of the security situation.

Relevance

The ARTF presents itself as being similar to budget support within a fragile context in that it acts as a mechanism for the reliable financing of national priorities, as a platform for political dialogue with the Afghan government on key reforms and as an instrument for coordinating donors in accordance with an agreed financing strategy. The ARTF finances the running costs of public administration in order to stabilise the state, and supports the high-priority investment programmes of the various ministries.

The promotion of high-priority projects as part of the Afghan national development strategy puts the focus of the fund on political support for the partner country. The Afghan government is involved in the administration and management of the fund.

The ARTF is divided into two "windows". The Recurrent Cost Window (RCW) is used to finance some of the running costs of public administration (excluding security forces). The Investment Window (IW) supports the high-priority investment programmes of the various government ministries. An incentive programme (IP) for the Afghan government that ties payments to the achievement of certain milestones (like an Income Tax Act, for example) has been set up as part of the RCW since tranche VIII of the ARTF. The fields promoted by the ARTF are public finances, administrative reform, public infrastructure, rural development, health and education.

The model chosen was that of a trust fund instead of paying directly into the state budget in the form of budget support. This approach is still suited to the underlying conditions in Afghanistan. The Afghan budget can still not be supported by national revenues alone.

The Afghan state remains blighted by weak public financial management, high levels of corruption, capacity bottlenecks at various ministries and significant fiduciary risks. Even now, ten years since the inception of the ARTF, this is preventing donors from transitioning to straightforward budget support.

In order to put the expectations of the ARTF into perspective, we would like to point out that it would be unrealistic to expect a foreign, civil, multi-donor trust fund to play a part in settling internal conflicts within Afghanistan surrounding the issues of modernity, religion, tribal power or resources, or remediating the core problem of a challenging security situation. We nevertheless consider the ARTF to be highly relevant, and for the following reasons: supporting the fulfilment of the population's basic needs is a humanitarian imperative, the positive effects of improved education on a country's development have been shown many times, the impact of stronger involvement in an information-based society and local referendums with respect to promoting democracy is plausible, while supporting the development priorities of the Afghan government in hard-hit rural areas, an Afghan legal system that functions better in the long term and more stable state finances combined with the provision of public services boost the population's confidence in the Afghan government and therefore have the potential to help stabilise the country. The ARTF
is an important element of German and international civil development cooperation with Afghanistan, and is supported by 33 donors.

**Relevance rating: 1 (all phases)**

**Effectiveness**

The ARTF targets are highly complex with a large number of sub-programmes. We have only highlighted aspects here that were of particular relevance for the German contribution. Given that German funds prioritise support for the Afghan government’s development priorities in rural areas, we have taken a closer look at the corresponding sub-programmes: NSP II (National Solidarity Programme II) and NRAP (National Rural Access Programme). The ARTF’s EQUIP sub-programme for promoting education is not taken into account here because that was promoted by a separate FC contribution and is the subject of its own ex post evaluation.

The aim of the programme was (i) to safeguard the ability of the civil service to function, and in so doing ensure the basic provision of social services, and (ii) to implement the Afghan government’s development priorities for rural areas. The indicators used for the ex-post evaluation are taken from the ARTF’s targets, and relate to (i) the extent to which the indicators meet their targets in the field of “public finance” and (ii) the target achievement of the NSP and NRAP sub-programmes.

The achievement of the various indicator targets breaks down as follows:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Evaluation</th>
</tr>
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<tbody>
<tr>
<td><strong>Public Financial Management</strong></td>
<td></td>
</tr>
<tr>
<td>- National audit office reports submitted promptly</td>
<td>Achieved</td>
</tr>
<tr>
<td>- Law established to tackle corruption</td>
<td>Achieved</td>
</tr>
<tr>
<td>- Low deviations between planned and actual budgets</td>
<td>Not achieved</td>
</tr>
<tr>
<td>- Compliance with national strategies</td>
<td>Achieved</td>
</tr>
<tr>
<td>- Stabilising the public expenditure quota</td>
<td>Exceeded</td>
</tr>
<tr>
<td><strong>National Solidarity Programme II</strong></td>
<td></td>
</tr>
<tr>
<td>- Improving the provision of basic services in rural areas</td>
<td>Partially achieved</td>
</tr>
<tr>
<td>- Establishing good local governance</td>
<td>Temporarily achieved</td>
</tr>
<tr>
<td><strong>National Rural Access Programme</strong></td>
<td></td>
</tr>
<tr>
<td>- Improving rural mobility</td>
<td>Partially achieved</td>
</tr>
</tbody>
</table>

Most of the Public Financial Management indicators have achieved their targets. Deviations between planned and actual income and expenditure in the national budget indicate a lack of certainty when it comes to planning the investment budget, which is largely financed by donors. Deviations in the current budget (mainly salaries) are rather small, although any significant downside deviations in expenditure would also lead to the collapse of state services. The incentive programme (see above) has proved successful. However, increased national revenue has been used up by increased government spending in
recent years, especially on security. That is why Afghanistan is still reliant on the international community of donors for important areas of state welfare in its current budget. Further progress is required in the fight against corruption and the promotion of economic development in order to reduce dependence on international donors. The incentive programme achieved some structural reforms with improvements in efficiency, for example with respect to procurement, budget transparency, external auditing and proper budget allocation, i.e. improvements at a high, administrative level.

The NSP met its objective of promoting good governance at a communal level and supporting communal investment and development projects, albeit not on a sustainable basis from an institutional or technical perspective, and with some omissions with respect to village irrigation and transport projects. The Community Development Councils (CDC) that were set up are still not formally incorporated into the Afghan administration system, making them more of an informal administrative structure that has been in place for ten years.

The aim of the NRAP was to improve access to basic facilities and markets by improving rural roads. This is another case where the goal has been achieved on a temporary basis. However, the construction work is of average quality. This has resulted in a low impact on journey times, although the proportion of the population with access to roads that can be used throughout the year was raised significantly. This also improved access to infrastructure, which is reflected in a sharp increase in the utilization of district hospitals.

A summarised overview of the ARTF’s target achievements with respect to the German contribution and its focus on rural development (accounting for 64 % of the total FC funds) reveals a satisfactory level of effectiveness overall.

**Effectiveness rating: 3 (all phases)**

**Efficiency**

The production efficiency of a multilateral trust fund can be higher than for a large number of individual projects due to lower administrative expenses. According to information provided by the World Bank, the ARTF’s transaction costs came to around 2 % - relatively low in our eyes. We believe that the pooling and resulting harmonisation of the contributions of many donors, combined with the ability of each donor to prioritise particular programmes for their contributions, can be viewed as efficient. Despite this prioritisation, the coordination by the ARTF ensures that individual national priority programmes are not (bilaterally) over-financed.

The infrastructure programmes promoted by phases VII-X ran into the same problems with respect to implementation as other infrastructure projects in Afghanistan. These include corruption, poor planning, delays due to extreme weather conditions in some cases, insufficient supervision of works, sub-par construction work and frequent subcontracting resulting in high unit costs. The security situation makes it particularly difficult to implement construction projects in Afghanistan. Suspensions of payments by donors also led to deviations from plan and delays in construction. Due to the high risks associated with infrastructure projects, the ARTF took advantage of the co-financing of World Bank projects in order to reduce its planning and monitoring costs. However, this was ineffective in rural areas and districts in which the security situation is poor. As a result, a Supervisory Agent was appointed in 2012 to improve the supervision of sub-programmes in rural areas using local subcontractors and state-of-the-art satellite technology. The way in which the fund operated was evaluated and improved on an ongoing basis.

The ARTF now has growing cash reserves thanks to substantial incoming payments and problems with the distribution of funds in previous years, an increase in contributions from donors, and also an increase in the national financing of ongoing costs for salaries and pensions. While production efficiency was impacted by suspensions of payments (see above), these are an important instrument for implementing reforms in Afghanistan. The tying of funds offered as part of the incentive programme to conditions brought about structural reforms with improvements in efficiency at a high administrative level, for example with respect to procurement, budget transparency, external auditing and proper budget allocation.

One important factor behind the positive evaluation of the trust fund’s allocation efficiency is its multi-sectoral orientation that follows national priorities. The Afghan government is involved in the administration of the fund. In addition to the World Bank as the fund manager, the other donors are involved via the
steering committee as well as in the sector-specific working groups. Much of the FC funding went into rural investment programmes. This was in line with local requirements, and is therefore viewed positively. The ability of donors to prioritise certain programmes for their allocations does not have any verifiable negative impact on the allocation of the ARTF's funds to individual sectors. This is because the ARTF is responsible for coordination, and any imbalances can generally be adjusted using the ARTF's non-prioritised funds. Switching to sector-based basket financing or general budget support seems not to be a viable option for the time being on account of the fiduciary risks involved.

In terms of the economy as a whole, the multilateral trust fund has proved itself as an instrument that harmonises donated funds and assigns them in accordance with national priorities in connection with the stabilisation of national revenues, meeting basic needs with respect to education and health, supporting Afghanistan's rural population and paying out salaries and running costs.

**Efficiency rating: 2 (all phases)**

**Impact**

The FC contribution to phases VII-X of the ARTF had two overall developmental objectives: (i) helping to stabilise the Afghan state and (ii) alleviating poverty.

There are a number of areas than can be addressed and supported in connection with the fragility and stabilisation of states (security, rule of law, satisfaction of basic needs). Since 2002, the ARTF has been supporting the satisfaction of basic needs and associated financing with activities in the fields of "public finances/administrative reform" (i.e. the efficient generation of public revenues) and "state services" (through the effective provision of basic services for the general population with respect to education and health using state spending). The reasoning that increasing state revenues improves the provision of basic services to the population, which in turn reduces (or mitigates) poverty and can help stabilise the Afghan state, is sound. The ARTF also contributed to the "the rule of law" through one of its programmes. It made no direct contribution with respect to "security". Instead, excluding the financing of running costs for security forces underscored the fund's civil nature, as a result of which the fund's contributions to security and preventing conflict are more indirect in nature, for example through improved education.

The ARTF contributed to stabilising the Afghan government's budget and to covering ongoing state budget costs in particular using its own sources of revenue (see above for the achievement of the programme's objectives). It was helped in this respect by the incentive programme (IP) that was set up during phase VIII. Over the last four phases, the ARTF's contributions to ongoing expenses were reduced to financing approximately 20 % of the budget's ongoing costs.

In terms of overarching goals, the trends in selected areas of the Millennium Development Goals (MDGs), created by the United Nations for 2015, were used to assess the impact on poverty (MDG Report 2012). Most of the Millennium Development Goals are unlikely to be achieved by 2015 because the discrepancy between the current indicator values and the target values is still too large. It is impossible to quantify the exact contribution of the ARTF to the indicators' current levels. However, the MDG indicators do reveal that Afghanistan still faces substantial challenges with respect to development, although most of them are improving and have even made significant progress, for example the reduction in child and maternal mortality (mortality of children under the age of five reduced from 114.5 per thousand in 2005 to 102 per thousand in 2011, maternal mortality reduced from 710 per hundred thousand to 460 per hundred thousand during the same period) or improving literacy among 15 to 24 year olds (from 35 % in 2005 to 47 % in 2011).

Indicators relating to the security situation (Brookings Afghanistan Index 2013) show that there is no positive trend identifiable with respect to stability, peace or security. The number of insurgent attacks, for example, fluctuated over the course of each year between 2008 and 2011, with particularly high figures recorded in the summer of 2010. The overall trend for the period in question points towards an increase in attacks. The Afghan government has been unable to shore up security within the country. While surveys of the population regarding satisfaction with the government's fulfillment of its responsibilities between 2007 and 2012 do not reveal any positive trend either, satisfaction has settled at quite a high level. About three quarters of those surveyed are happy with the way the government fulfills its responsibilities.
Looking at the bigger picture, the ARTF has a broad impact. According to information provided by the ARTF, the NSP impacted 22.4 million people. The NRAP improved access to roads, and therefore to district hospitals, for 5.7 million people. The provision of basic social services in the fields of health and education was improved. By maintaining the payment of salaries and financing a wide range of development measures, the ARTF helped stabilise the state and alleviate poverty.

**Impact rating: 2 (all phases)**

**Sustainability**

The standard for sustainability is lower due to the fragile context (and the security situation in particular) as well as the corresponding adjustment of targets. This was also formally documented for the FC contributions to the ARTF, with reference to the FC/TC guidelines.

Nevertheless, some sustainable impacts of the ARTF can be observed. These include an increase in government revenues that cannot be attributed to the growth of the population and the economy alone, but is rather the result of improved financial administration (increase in tax revenues by about 25% - 30% p.a. since 2006). Looking back, the ARTF proved to be a suitable instrument in this respect with sustainable effects relating to the improvement of the processes and institutions involved in collecting tax revenue and the ratification of laws to combat corruption. This was thanks to the long-term involvement of its donors and the increasing involvement of the Afghan government. Other, more lasting developmental impacts were achieved with respect to the provision of basic services. Some impacts were also achieved in the last ten years with respect to local co-determination and women’s rights in rural areas - admittedly on an informal basis by means of the CDCs, but still with the effect of promoting democracy.

There is no sustainability as yet with respect to the maintenance of the public infrastructure provided or the coverage of subsequent costs. Roughly 65% of the ongoing costs in Afghanistan are currently covered by the government’s own revenues, and there is a strong reliance on donors. In Tokyo in 2012, the donors promised to continue supporting reform in Afghanistan. The central government’s capacities with respect to financial management have improved over the last decade, and efforts were made to reform public administration although further steps are required in this regard.

**Sustainability rating: 3 (all phases)**
Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project’s overall developmental efficacy. The scale is as follows:

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Very good result that clearly exceeds expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2</td>
<td>Good result, fully in line with expectations and without any significant shortcomings</td>
</tr>
<tr>
<td>Level 3</td>
<td>Satisfactory result – project falls short of expectations but the positive results dominate</td>
</tr>
<tr>
<td>Level 4</td>
<td>Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results</td>
</tr>
<tr>
<td>Level 5</td>
<td>Clearly inadequate result – despite some positive partial results, the negative results clearly dominate</td>
</tr>
<tr>
<td>Level 6</td>
<td>The project has no impact or the situation has actually deteriorated</td>
</tr>
</tbody>
</table>

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

**Sustainability** is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).