

Ex post evaluation – Afghanistan



Sector: State and civil society

Programme/Project: Afghanistan Reconstruction Trust Fund, Tranches XI-XIV 2011 65 018*, 2012 65 982*, 2013 65 006, 2014 67 653

Implementing agency: ARTF, trust fund managed by the World bank



Ex post evaluation report: 2017

		Phases XI-XIV (Planned)	Phases XI-XIV (Actual)
Investment costs (total)**	EUR million	2,793.95	2,773.95
Counterpart contribution	EUR million	0.00	0.00
Financing	EUR million	2,793.95	2,773.95
of which budget funds (BMZ)	EUR million	160.00	140.00

*) Projects in 2016 random sample

**) Payments by 34 donors

Summary: The Afghanistan Reconstruction Trust Fund (ARTF) is a multilateral trust fund. It is managed by the World Bank and provides a reliable source of financing for the Afghan government to cover the running costs of civil state apparatus and fund priority investments. Subsidies to running costs are increasingly used as an incentive to increase public revenue, carry out structural reforms in areas such as public finance management, public services, investment and trade conditions, and to strengthen the commitment with regard to the operation and maintenance of infrastructure. The investment portfolio financed by the ARTF comprises a total of 38 national priority development programmes related to rural development, agriculture, infrastructure, human development and the public sector/governance, which are implemented by the competent ministries. In accordance with the "New Deal for Fragile States" the ARTF strengthens public structures and controls fiduciary risks to facilitate increased use of country systems for planning, budgeting or procurement.

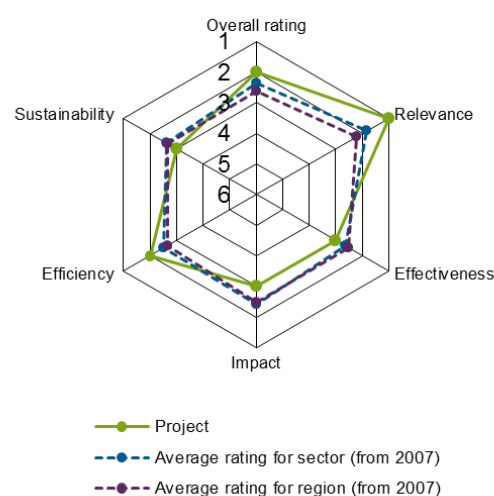
Development objectives: The ARTF's objective was to maintain the functionality of public services and hence improve the access to and use of infrastructure and social services (results-oriented objective / outcome) as well as to help selected ministries to carry out their tasks successfully and to work increasingly based on the good principles of public administration (process-oriented objective / outcome). As a result the project aimed at contributing to the stabilisation process of the Afghan state and to reduce poverty (impact).

Target group: The entire Afghan population, particularly state officials and the poorer rural population.

Overall rating: Rating still 2 (all tranches)

Rationale: The ARTF addresses the key problems of Afghanistan by offering reliable support for running costs and investments. In so doing it helps to improve the population's access to infrastructure and social services and to a certain extent it also supports the improvement and functionality of public administration. Set up as a multilateral fund, the ARTF is an efficient tool with low transaction costs. The project also contributes towards positive human development and stability. Even if progress is overshadowed and threatened by the fragile security situation and the bad economic situation, sustainable impacts can be assumed.

Highlights: The trust fund enabled to drive implementation via public executing agencies based on national priorities and using country systems in the context of the weak state and high corruption risks. Thanks to the process-based and results-oriented objectives the ARTF achieved tangible results in the short term, which contributed to the legitimacy of the Afghan state whilst creating the requirements for long-term changes at the same time.



Rating according to DAC criteria

Overall rating: Rating still 2 (all tranches)

The Afghanistan Reconstruction Trust Fund (ARTF) is a multilateral trust fund that supports the Afghan government with the purpose of stabilising the country and reducing poverty. The fund provides a reliable source of financing for Afghanistan's development priorities. Its funds are taken into account in the budget planning for the Afghan state; in contrast to budget aid, however, the funds are administrated and disbursed by the ARTF. Conceptually persuasive in this particular fragile context, the ARTF pursues with respect to the stabilization of the Afghanistan state socio-economic objectives, focusing on the functionality of public services and an improvement of access to infrastructure and services on the one hand (results-oriented objective), while on the other hand it targets the strengthening and legitimacy of the Afghan state through improvements of public administration processes (process-oriented objective): The financing of running costs and investment measures are designed to improve the efficiency and functionality of public services as well as the access to infrastructure and social services. At the same time, the well-structured processes and reform dialogue shall enable selected ministries to carry out their tasks successfully and increasingly work based on good principles of public administration. The achievement of the results-oriented objectives is satisfactory: public services are functional, while access to key infrastructure and social services has been expanded. The situation with the process-oriented objective, on the other hand, is somewhat mixed: while the ministries have managed in part to improve their working processes and to implement reforms, the state was unable to stabilise its revenues and is still weak in implementing development measures effectively. Nonetheless, the ARTF makes an important contribution to reducing further destabilisation of the state, and provides key support for the slow progress in the field of human development. Thanks to an appropriate committee structure, the support by the ARTF is efficient. Ownership and increased responsibility of the Afghan state are mandatory a key prerequisite for ensuring sustainable impacts, the tense security situation coupled with corruption and weak administrative structures jeopardise the use and sustainable operation of infrastructure as well as the provision of services.

Since tranches XI - XIV cannot be separated, the ex post evaluation (EPE) examines the four tranches together.

Breakdown of German contribution to ARTF

		German contribution to ARTF* (planned)	German contribution to ARTF* (actual)
2011 - Tranche XI	in EUR million	40	40
2012 - Tranche XII	in EUR million	40	40
2013 - Tranche XIII	in EUR million	40	20**
2014 - Tranche XIV	in EUR million	40	40

*) without contribution to EQUIP II, which is managed and evaluated separately.

***) The Federal Government reduced the payment due to dissatisfaction with regard to the implementation of the reforms agreed under the "Tokyo Mutual Accountability Framework" in the fields of voting rights, anti-corruption and gender equality.

Relevance

In spite of some progress with regard to building democratic structures, especially in education, at the time of the project appraisal for tranches XI - XIII (2011) Afghanistan was still facing huge stability and development challenges. Despite the marked increases in public revenue, the state was still far from being able to cover the equally higher expenditure from its own resources. In 2010/11 the budget deficit totalled roughly USD 1.7 billion, or 10.2% of the gross domestic product (GDP). This is attributable to the rising running costs related to security, but also to the costs for operating and maintaining the newly created infrastructure and the expanded state capacities. This is why it was still necessary to support the state budget and thereby finance the running costs and investments.

Against such a background, the ARTF was and still is a useful support tool, which tackled the various challenges of the Afghan state and key problems of Afghanistan through two financing windows. The Recurrent Cost Window (RCW) reimburses already effected expenditure of the civil governmental bodies, such as wages, pensions, operating and maintenance costs. The Investment Window (IW), to which the ARTF funds are primarily allocated, supports development programs implemented by the ministries in the fields of rural development, human development, infrastructure, agriculture and the public sector/governance. The role of the ARTF as a reliable financing mechanism and platform for political dialogue between the government and donors is convincing; needs are determined and specified jointly.

One major challenge of cooperating with fragile countries is that the functionality of government institutions which is crucial for their stabilisation need to be strengthened in a context in which they appear hardly able to act. The ARTF tackles this challenge in a convincing manner by utilising country systems extensively and strengthening them: All the investment measures are in line with the national development priorities set by the government. The IW projects implemented by the competent ministries increasingly fall under their full responsibility and employ public procurement as well as public financial management systems. What is more, the ARTF funds projects that strengthen budget planning and the result orientation of government authorities. The control mechanisms of the ARTF, such as the use of a Monitoring Agent and a Supervisory Agent, are designed to reduce the fiduciary risks, thereby making it possible to support the Afghan budget in the first place.

The ARTF also supports the creation of efficient and self-sustaining state structures in the long run by means of the Incentive Program (IP), in that the IP offers incentives for key structural reforms and higher public revenues. To this end, RCW funds are subject to the achievement of three kinds of targets: i) the disbursements depend on the attainment of structural reforms designed to make public financial management and public services more efficient, improve the investment and trading climate, deconcentrate flows of finance and increase public revenue, ii) direct focus on specific goals and government revenues, and iii) additional funds are disbursed when implementing operation and maintenance measures.

At the time of this EPE (2016) the ARTF still seems highly relevant. By virtue of its set-up, the ARTF addresses the core problems of weak stability and poor public administration by means of various mechanisms: It enables the support of fiscal stability¹, uses and strengthens country systems and creates incentives for important reforms and higher state revenues. Its conceptual strength of both using and strengthening country systems at the same time is even more pronounced than at the time of the appraisal. What is more, the ARTF has proved to be flexible and can adapt to changing circumstances in dialogue with donors and the government. Furthermore, by improving public infrastructure and services it also contributes to satisfying basic needs, reducing poverty and to enhancing the legitimacy of the state. However, to keep the expectations regarding the ARTF appropriate, it is important to emphasise that external financial support alone cannot solve the many key problems Afghanistan is facing, such as the precarious security situation, tribal conflicts, political consolidation and modernisation.

The support of the ARTF support rationally integrates into the priority area of "Good Governance" as agreed upon between Germany and Afghanistan, and in terms of approach it aligns with the BMZ Strategy Paper "Development for Peace and Security".

Relevance rating: 1 (all tranches)

Effectiveness

Befitting the fragile context, the ARTF pursues two lines of objectives with regard to stability in Afghanistan (see overall rating). As described in the project proposal, the ARTF is designed to maintain the functionality of public services as well as to improve access to and use of infrastructure and social services (objective). Alongside this results-oriented objective, the ARTF pursues a process-oriented objective through its approach too, which is equally assessed for this EPE: selected ministries should be rendered capable of carrying out their tasks successfully and increasingly working based on good principles of public administration.

¹ Public revenue in 2014 totalled a mere 8.7% of GDP, while in 2016 the government estimated that merely 31% of the budget was covered by domestic revenue. 69% had to be funded from international contributions. The planned share of the ARTF in the overall external financing budget was 21.3% in 2016.

Results-oriented objective:

The results-oriented objectives at the outcome level were achieved: keep public services functioning and improve access to infrastructure and social services. Thanks to its considerable support to the external financing of the Afghan budget (see footnote 1), the ARTF has made an important contribution to the functionality of public services. In terms of running costs this is seen by means of the output indicator of annual payments in the RCW. RCW payments rose from USD 176.64 million in 2011 to USD 435.39 million in 2015. The main recipient was always the Ministry of Education with shares of 38% to 43% of fund disbursements.²

The achievement of the results-oriented objective is impressive: according to ARTF figures, 8.5 million children (2015) had access to primary education (2011: 7.1 million), 4.5 million people (2014) had a new or rehabilitated connection to the electricity grid (2012: 3.2 million), 13.6 million people (2014) had access to roads (2012: 5.7 million) and 10 million people (2014) had access to safe drinking water and sanitation services (2012: 4.8 million). This enormous improvement in access in absolute terms, however, must be contrasted with the supply rate that is still extremely low.

The improved access to infrastructure and social services is also tangible if we look at the National Solidarity Program (NSP), whose goals were markedly exceeded. During the period under evaluation this was by far the largest programme of the ARTF investment portfolio with a volume share of almost 50%, and it was supported by Germany in 2014 (Tranche XIV) with the sum of EUR 10 million³. The NSP aims to improve local governance by establishing selected bodies at municipal level, the Community Development Councils⁴ (CDCs). This means priority local infrastructure measures can be implemented even in regions with difficult access. The program has been rolled out nationwide and at least in the short term (as of 2015) it has managed to improve local governance through creating 31,000 CDCs (including 8,487 new ones), where women account for 40% of the members, and give access to improved services to a total of 27.3 million people (including 7.2 million since 2011), while its implementation has so far generated a total of 54.2 million working days through labour-intensive measures (including 15.3 million since 2011).

Process-oriented objective:

The objective of enabling selected ministries to carry out their tasks successfully and increasingly work based on good principles of public administration was only partially met. On the one hand, the ministries are increasingly able to take on independent responsibilities, for example in procurement (48% in 2013, target of 50% in 2015, presumably achieved). This means project responsibility can increasingly be shifted from the project implementation units established specifically for the projects into the hands of the ministerial departments. The implementation of the state budget planned for development projects, however, is still rather ineffective; the disbursement rate of public development expenditure is stagnating at a low level (less than 51%) and has not risen by 5% since 2013 as envisaged.

The IP successes in strengthening national structures are also mixed. A good majority of the targeted structural reforms have been implemented, albeit with some delays. Public revenue has not been stabilised as planned though, and fell well short of the target figures in some of the past years. In terms of gross domestic product, public revenue in two of the five years examined did not meet the 9% target (2012: 8%, 2014: 8.5%). Relative to running costs, the target (>65%) has been missed since 2013 (2012: 60%; 2013: 55.3%; 2014: 44.9%). This is partly because customs receipts have not risen as planned, and instead fell sharply. The lack of IP success is also shown by the fact that the government always received less than 50% of the planned financing reimbursed from the IP at the end of the fiscal year (target 75%).

Effectiveness rating: 3 (all tranches)

² Over the period in question Germany assigned an annual EUR 20 million for the Second Education Quality Improvement Program (EQUIP II). The program is managed separately and examined in a separate evaluation.

³ Alongside supporting EQUIP as outlined above, Germany supported in the period under review only the NSP by preferential funding. EUR 10 million is the maximum level of preferential support because the ARTF only permits up to 50% of the entire donor contribution as preferential funding.

⁴ However, so far these have not been formally embedded into the Afghan system of administration.

Efficiency

Financing as a multilateral trust fund results in efficiency gains for the partner country, the World Bank and the donors. The joint design and financing of the windows and the investment programs reduce the transaction costs of the ministries and the donors in comparison to bilateral projects.

The committee structure of the ARTF promotes political dialogue and facilitates the effective implementation of projects at the same time. The ARTF financing strategy set for three years provides planning security in the medium term. Donors are able to support the ARTF on a technical level with co-designing the strategy and participating in the political dialogue process. For in-depth technical discussions though the Management Committee has no suitable platform, as demonstrated by the EQUIP evaluation carried out separately. Germany takes part in the Steering Committee, the Strategy Group and the IP and Gender working parties.

The significant growth in the financing volume in the period under review whilst the disbursement rate of public development spending stagnated at a low level posed challenges for the ARTF and led to high cash balances. Since 2012 these have always totalled between USD 1.4 and 1.7 billion at year-end, and at the end of 2012 and 2013 more than USD 700 million was not allocated to any specific window or project in either year. The high cash surplus is due to the misestimation in the financing strategy adopted in 2012: Donor funding turned out much higher than anticipated, while the absorbing capacity of the investment projects was overestimated, which is why the actual distributions fell considerably short of the planned figures.

The allocation efficiency can be considered positive on account of the multi-sectoral focus of the ARTF to national priorities. The funds were distributed in accordance with the government strategies and implemented by the competent ministries, thereby fulfilling the local requirements. There was no evidence of reduced efficiency in use of funds owing to the high willingness of donors to provide funding. The fact donors were able to assign 50% of their funding for specific investment projects (preferential funding) had no demonstrable impact on the distribution of the funds either. Once a project has been fully financed, the World Bank rejects any additional preferences for funding the given project.

Also important for a positive efficiency rating is that there is no other tool available that could achieve such broadly-based effects under comparable transaction costs.

Efficiency rating: 2 (all tranches)

Impact

In terms of impact, the project was designed to contribute to the stabilisation process of the Afghan state and to reduce poverty.

By means of its nationwide and multi-sectoral focus, the implementation of large programs and supporting the ability of the state to act, the ARTF achieved a broad impact. By supplying social services it helped to contribute to fulfilling the basic needs of the population and hence to lowering poverty and boosting stability.

The improvements with regard to positive human development are reflected in the indicators of the Millennium Development Goals (MDG), even if the actual contribution to the current state of the indicators through the ARTF cannot be delineated. Against the background of ARTF's high share in the external financing of the budget at 21.3% (see footnote 1) it seems plausible that the ARTF contributed to the improvement in terms of achieving the MDGs. In spite of the persistent and significant deficits, Afghanistan has made some progress, especially in the fields of education, which continued during the period under review. Youth literacy rose from 39% in 2010 to 47% in 2012, while child mortality for those under the age of 5 dropped sharply from 105 (2010) to 91 (2015) per 1000 live births. Improvements were also noted with access to water supply and sewage disposal (2010: 27.2% / 5.1%; 2012: 31% / 8%), even though the supply rate is still low (see Effectiveness). However, this positive trend outlined above is not reflected in a reduction of monetary poverty: the percentage of the population under the national poverty line rose from 36.3% (2011) to 39.1% (2015). Looking at the current data it seems unlikely overall that the MDGs – which should be achieved in Afghanistan by 2020 because Afghanistan only started the MDG process in 2005 – will actually be attained.

It is difficult to verify just how big the contribution to the stabilisation process was. But a certain contribution, especially to the greater legitimacy of the state, is plausible. Since the investment measures fulfil the government's political priorities and are implemented by the competent ministries, it can be assumed that the population attribute the improvements to the state. Furthermore, the regular subsidies of running costs and the unscheduled subsidies in emergency situations (so-called ad-hoc payments) foster greater confidence in government authorities. Satisfaction with the government's fulfilment of responsibilities was permanently high over the period under review according to the Brookings Afghanistan Index (73% to 75% of the population).

There are still enormous challenges for the functional implementation of policies. Large parts of the state apparatus are still dominated by clientelistic networks. Corruption is widespread and is perceived by the population to be a significant barrier to development according to a survey by the Asia Foundation. The Corruption Perceptions Index conducted by Transparency International was consistently on a low level over the period concerned. Afghanistan was ranked 166th out of 168 countries in 2015. Assured payments to civil servants represent another challenge.

What is more, the marginally positive changes that have been made are under threat from the poor security situation, which the project can only influence indirectly. If we look at the number of insurgent attacks, the security situation has deteriorated since the start of the project. While the ratio of those in the country who fear for their own safety dropped slightly until 2012 from 51% to 48%, it then proceeded to rise again and has exceeded 65% since 2013. This is connected to the withdrawal of the International Security Assistance Force (ISAF), which handed over key security duties to the Afghan army and police at the end of 2014.

The economic growth that has slowed drastically since 2013 is also threatening to overshadow the positive results achieved. Unemployment remains extremely high: for certain regions the Afghan Statistics Authority records jobless rates of 25 to 40%. The worsening economic situation provides one possible explanation why the ratio of the population with an optimistic outlook on the future fell rapidly after initially rising from 42% (2010) to 57% (2013), and in 2015 amounted to only 37%.

Against the background of the progress made in fulfilling the basic needs of the population and the positive effects on human development as a result, the impacts are considered to be still satisfactory in spite of the persistent deficits with monetary poverty and stability.

Impact rating: still 3 (all tranches)

Sustainability

In the context of fragility and especially given the bad security situation, the ARTF tranches here were examined with a reduced sustainability requirement in accordance with the FC/TC rapid response procedure for natural disasters, crises and conflicts. This should be construed particularly in the sense of linking the project to further measures. Only a few sustainable impacts are expected from the subsidies to running costs under the RCW. While the IP works towards improving public revenue, the successes so far have rather been with regard to political dialogue.

Running the newly established social services and maintaining the infrastructure in the long term create a significant challenge for the Afghan state. Using national systems does fulfil an important requirement regarding operation and maintenance, but financing the running costs is not ensured owing to the low public revenue and currently supported by international grants. Furthermore, there is a risk the infrastructure will become damaged again owing to the weakness of the state and the poor security.

To counter this problem, in 2013 the ARTF established the Operations and Maintenance Facility under the IP. This Facility provides an "incentive" for increasing spending in operations and maintenance by means of additional finance. It was fully disbursed in 2013, while in 2014 the targets were significantly missed owing to the three-fold increase in the allocation to the Facility and only USD 34 out of 100 million was paid. Given this state of affairs the Facility was restructured in 2015.

At the level of individual investment programs though, we can identify some sustainable impacts. The National Solidarity Program for example managed to safeguard the functionality of the measures by means of good concepts such as the establishment of user committees. The NSP-funded infrastructure is largely

still functioning, but two thirds of it is in a poor state. Sustainable impacts can be assumed with regard to improved local governance as well. Even though there is no long-term financing in place for the Community Development Councils as yet, committees have been convened in many places that will presumably continue beyond the project period and be able to contribute to resolving local problems.

Given that the project is compatible with following projects, and in light of the ARTF's focus on securing a sustained improvement in the state's revenue and performance capacity coupled with the initial sustainability impacts, the sustainability rating is satisfactory.

Sustainability rating: 3 (all tranches)

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:

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

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).