AFGHANISTAN
RECONSTRUCTION TRUST FUND

Proposal by the World Bank, the United Nations Development Programme, the Asian Development Bank, and the Islamic Development Bank

Introduction

1. Afghanistan’s reconstruction presents extraordinary challenges for the people and government of Afghanistan, and for the international community which has pledged large amounts of funds to support the reconstruction effort. The country has been devastated by more than two decades of conflict, destruction of physical and human resources, erosion of institutions and social capital, and recently by a three-year drought. The historic agreement reached in Bonn on December 5, 2001 provides Afghanistan a precious opportunity to break out of the entrenched pattern of conflict, return to normalcy, and enable its long-suffering people to rebuild their lives. On the basis of the Bonn Agreement, Afghanistan has begun a delicate evolution toward sustainable peace and political rebuilding which is intended to lead to a fully-representative elected government in about two years’ time. The success of this process and the success of reconstruction are inextricably intertwined. Hence it is essential for reconstruction to support the political process and respond to the legitimate demand of the Afghan people for quick results on the ground while at the same time building the institutional and human capacity for economic recovery and sustainable growth and poverty reduction.

2. The challenges of Afghanistan’s reconstruction call for an unprecedented response by the international community, both in terms of funding and in coordination of the reconstruction effort. The International Conference on Reconstruction Assistance to Afghanistan (Tokyo Ministerial Meeting) on January 21-22, 2002 generated large pledges of assistance for Afghanistan’s reconstruction totaling US $1.8 billion for the first year and $4.5 billion during the 2½ year period leading to a fully representative elected government. Both at the Tokyo Ministerial Meeting and at all other meetings on Afghanistan’s reconstruction held during the past three months, participants emphasized the need for effective coordination of the reconstruction process under the overall leadership of the Government of Afghanistan (GoA).1 A Steering Group (SG) for Afghanistan’s reconstruction has been established to enhance overall international political support for the reconstruction effort and help provide strategic guidance. An Implementation Group (IG), chaired by GoA and supported by the Asian Development Bank (ADB), the Islamic Development Bank (IsDB), the United Nations Development Program (UNDP), the World Bank (or WB), and the Chair of the Afghan Support Group, is expected to hold its first meeting in April 2002. It is envisioned by the GoA that the IG would evolve toward a normal Consultative Group (CG) mechanism.

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1 GoA refers to the Interim Administration of Afghanistan and its successors as specified in the Bonn agreement of December 5, 2001.
3. One important aspect of aid coordination is coordinated funding for reconstruction activities in line with agreed national priorities. The proposed multi-donor Afghanistan Reconstruction Trust Fund (“ARTF”) provides such a coordinated funding mechanism. Other advantages of the proposed ARTF include the following: (1) it will promote transparency and accountability of reconstruction assistance; (2) it will help reinforce the national budget as the vehicle for promoting alignment of the reconstruction program with national objectives; (3) it will reduce the burden on limited government capacity at the outset, while promoting capacity building over time; and (4) it is a suitable instrument to help fund the essential recurrent budgetary expenditures required for the government to function effectively. In the face of large reconstruction and recurrent expenditure needs, Afghanistan at present has an insignificant domestic revenue base. Although revenues can be increased over time, substantial external funding for budgetary support is required during the transitional period until domestic revenues largely cover core recurrent budgetary expenditures. This support can be provided through a combination of direct budgetary support and the ARTF.

4. In view of these advantages of donors pooling their resources in a strong international partnership through a coordinated funding mechanism to support Afghanistan’s reconstruction and building on agreements reached at the Brussels (December 20-21, 2001) and Tokyo meetings, this note presents a concrete proposal for establishment of the ARTF. The main role of the ARTF is envisaged to be to provide coordinated financing of priority expenditures in Afghanistan’s reconstruction program, including part of the operating budget of the GoA and other priority reconstruction activities, such as sector-wide programs, investment projects, and other development activities – either individually or (in the case of smaller activities) bundled into umbrella projects. All activities supported by the ARTF would be part of the comprehensive framework for Afghanistan’s reconstruction and development that is taking shape under government leadership—most concretely through the ongoing work on the comprehensive needs assessment that is proceeding sector by sector.

5. This proposal reflects the views of the World Bank, the United Nations Development Program, the Asian Development Bank, and the Islamic Development Bank, and also has incorporated comments received on earlier drafts, particularly those received at a donor meeting held at the World Bank on February 20-21, 2002. This paper will form the basis for the legal agreements establishing the ARTF and will guide the ARTF Management Committee (see paras 16-17) in its work.

6. The fundamental principles underlying this proposal are five:

- the need to support the political process as embodied in the Bonn Agreement, which implies a linkage between financial support provided through the ARTF and the continuing progress of the peace process agreed at Bonn, as well as ARTF resources flowing to beneficiaries who support implementation of the Bonn Agreement;

- the ownership and leadership of the GoA are essential for the effectiveness of assistance for reconstruction, implying that assistance ought to be given in support of a Government-proposed program of activities, reflected in a transparent budget;
genuine donor coordination is required, entailing an unusual degree of partnership among donors and agencies, and a willingness of all donors and agencies to cooperate in the implementation of the GoA program once agreed;

- the ARTF should support the broad development objectives and priorities of the GoA, particularly good governance, enhancing and mainstreaming the role of Afghan women in the development process and as beneficiaries of Afghanistan’s reconstruction, and private sector-led development; and

- the ARTF arrangements must provide for integrity and accountability in the allocation and use of assistance funds, as well as facilitate the promptness and efficiency needed to address the country's serious problems.

Coverage of the ARTF

7. Within the framework of the GoA budget, and the investment and related plans prepared by the responsible GoA entities (including an agency responsible for reconstruction), it is proposed that the ARTF would cover the following three categories of eligible expenditure (components):

- Salaries/non-project TA/O&M and other recurrent expenditure costs in the government budget (the "running costs" component);

- Investment activities and programs, including quick-impact recovery projects (the "investment and program" component); and

- Costs of contributions to reconstruction by Afghan experts resident abroad and training programs for Afghans in Afghanistan (the "Afghan expatriates and training" component)

8. The ARTF would be available to finance approved proposals for specific NGO programs through the investment and program component (see below), with the NGOs concerned acting as executing entities.

9. The investment and program component would finance pre-feasibility studies and activities in agriculture, infrastructure, micro-finance, and the social sectors, as well as re-integration of combatants into society and programs to facilitate the return of private business to Afghanistan. Activities would be in the form of sector-wide programs, stand-alone investment projects, or umbrella programs of small projects and activities that meet a common development objective. These activities, which would be placed within the framework of the GoA budget, would be either self-standing or could involve coordinated financing with a project financed by a donor or a multilateral development bank for the same purpose. It is anticipated that the ongoing sectoral needs assessment work will identify high-priority projects and programs that would be strong candidates for support from the ARTF.
10. The **running costs component** would finance a part of the government’s recurrent budget, including expenditures on wages, benefits, and other payments for government employees as well as Operations and Maintenance (“O&M) and interest payments. However, the technical assistance covered in this component would include only non-project TA; all TA related to investment project preparation or execution would be financed through the investment component or individual investment projects themselves. O&M would include purchase of small capital items up to a limit for office furniture and equipment, but it would not duplicate the "start-up" contributions already being made under the UNDP-administered emergency fund for that purpose. ARTF financing of recurrent budget expenditures would be based on the GoA’s macroeconomic and budget framework that would be reviewed by the IMF and the World Bank, and there would be close coordination with bilateral and multilateral donors who are also providing budgetary support for recurrent expenditures. The total external funding needs for government recurrent budgetary expenditures (which could be met by a combination of direct budgetary support and ARTF resources) would decline over time as domestic revenue mobilization picks up. ARTF funding of recurrent expenditures is expected to decline over time in line with the narrowing external financing gap in the GoA’s recurrent budget.

11. The third component of the ARTF would be an **Afghan expatriates and training component**, which would finance through the GoA budget the compensation and expenses of the significant number of Afghan experts and professionals residing abroad, who wish to make a temporary contribution to the reconstruction of their country and are called upon to do so. This component would also finance similar expenses, moving/resettlement costs, and other costs where appropriate of those Afghan experts and professionals residing abroad who are called on to make a longer-term contribution to reconstruction in Afghanistan. Clear and merit-based recruitment procedures and an equitable structure of compensation in line with relevant principles embodied in a code of conduct would be required in order to permit such financing to occur. A GoA committee would establish procedures for recruitment, a compensation structure and other rules, in consultation with the ARTF Management Committee (described below). This component could cover private as well as public sector activities, and also could cover relevant training programs to build capacity of Afghan organizations and individuals to contribute to reconstruction. The scope and modalities of this component need to be further considered, in close consultation with the GoA, before it is operationalized.

12. Concerning law and order issues, the Afghan people and the international community consider that improved security is a very high priority in the short run and is an essential prerequisite for reconstruction, economic development and private investment, as well as being critical for aid effectiveness. Accordingly, because of the extraordinary linkages between security and development at this time in Afghanistan, the ARTF would fund selected expenditures related to the civil police force. Only a positive list of civil police expenditures such as salaries and benefits, uniforms, vehicles, fuel, operating and maintenance costs, two-way communications equipment, and computers would be eligible for ARTF funding. The ARTF would not fund expenditures related to the military, paramilitary, intelligence services, anti-narcotics campaigns, and weapons of all kinds, because of the nature of such expenditures. ARTF financing of civil police expenditures
would have priority for phasing out when other possible financing mechanisms for police expenditure are available and as soon as government domestic revenue mobilization permits. Since relevant technical expertise resides within the UN system, the police component would be implemented on behalf of the GoA through UNDP supported by other UN agencies. This is consistent with the World Bank’s policy on post-conflict countries which mandates the World Bank to work in close partnership with bilateral and multilateral agencies, particularly the United Nations and other institutions that have major responsibility for peace making, peace keeping and security.

13. Funds allocated from ARTF for police-related activities will be passed through directly to UNDP, which will administer and manage them. This arrangement responds to the expressed preference of the donors of the ARTF to have a common trust fund and avoid creating new trust funds, while ensuring that the World Bank will act only as a kind of fiscal agent, without providing or managing funds for police-related activities. Instead, the UNDP will be responsible for appraisal of police-related activities in order to determine their adequacy for funding and for the supervision of such activities. Because the World Bank’s role is limited in this manner and the overall purposes of the ARTF are consistent with the World Bank’s mandate under its Articles of Agreement, this arrangement does not raise the specific concerns regarding productive purposes, non-involvement in political activities, World Bank comparative advantage and reputational risks that underlie the World Bank’s general policy restricting financing of police expenditures.

14. A seamless transition between the existing UNDP start-up fund and the ARTF would be ensured. The UNDP start-up fund would cease operating as of July 31, 2002. If funds are remaining as of July 31, 2002, and donors to the fund agree, these funds would be transferred to the ARTF. Donors are encouraged to continue providing contributions to the UNDP start-up fund in order to meet essential initial funding needs of government until the ARTF is operational, and any over-funding of the UNDP start-up fund would simply augment the funding available for the ARTF, if donors would so agree. During the period while the UNDP start-up fund is still operating, in the area of recurrent expenditures the ARTF would finance only the eligible expenditures within the GoA’s agreed budgetary framework that are not covered by the UNDP start-up fund; however, the ARTF would fund activities in its investment and program and Afghan expatriates and training components.

Governance

15. Fundamental requirements for good governance of the ARTF are set forth below:

- support for a government-owned program, discussed and agreed with donors and reflected in a transparent, even if simple, budget
- close partnership of the key agencies
- separation between the policy/allocational aspects of ARTF operations and the fiduciary/administrative responsibility
full transparency and openness in ARTF processes

16. Accordingly, a three-tier governance structure is proposed for the ARTF: (1) the World Bank as Administrator of the ARTF; (2) a Management Committee (MC) composed of ADB, IsDB, UNDP, and WB at the next level; and (3) contributing donors of the ARTF at the third level. The role of the Administrator is described in paras. 26-35. The GoA, although not part of the formal governance structure of the ARTF, would play an integral role in reviewing proposals for ARTF funding and submitting to the MC those proposals which it considers are consistent with national priorities as embodied in the budget. Only proposals endorsed in this manner by the GoA would be eligible for ARTF funding. The exact counterpart arrangements for this process would be agreed with GoA.

17. The MC, which would meet on a monthly basis mostly in Kabul and by videoconference, would, with the exception of police-related activities be responsible for overseeing the activities of the ARTF, including reviewing proposals for funding from the ARTF and proposing allocations of funds contributed to the ARTF, in coordination with the GoA. The management role of the MC will be exercised collectively, and the MC will operate by consensus. (The successful conduct of the joint needs assessment provides a good precedent for such collaboration.) With respect to the police activities described in paragraph 12 above, the GoA would submit its request for funding to UNDP which will be responsible for the appraisal and supervision of such activities. UNDP would then recommend MC’s approval of such request. Procedures for financing police-related activities will be worked out between UNDP, the World Bank and MC.

18. Donors would review performance and provide strategic guidance to the ARTF. Donors would participate in the governance of the ARTF in two ways. All contributing donors would receive quarterly reports on ARTF expenditures and on decisions taken by the MC. In addition there would be an annual meeting of all contributing donors to the ARTF, joined by the GoA, at which the previous year’s performance and overall priorities and strategic directions would be discussed.

19. The second mode of donor participation in the governance of the ARTF would be through a smaller Donor Committee (also including participation by the GoA) which would meet every quarter in Kabul to review quarterly performance of the ARTF and provide guidance particularly with respect to short-run implementation issues. The MC would prepare substantive quarterly reports for the Donor Committee, which would be shared with all contributing donors along with the minutes of the quarterly meetings of the Donor Committee. In the interest of having a Donor Committee of manageable size for effective working, the Donor Committee would consist of donors who make paid-in contributions to the ARTF of at least US $5 million per year, plus two seats on the Donor Committee for representatives of other contributing donors who do not meet this threshold.

20. As mentioned earlier, the ARTF would provide partial support for an agreed GoA budget which reflects in a transparent manner a comprehensive GoA program of activities. This implies the prior elaboration of such a comprehensive program of recurrent expenditures and investments and its incorporation into a budget-even if initially only a rudimentary one-
that is consistent with the broader macroeconomic and fiscal framework. The overall framework and broad priorities of the budget would be discussed and agreed with the donor community. Once such agreement is reached, the GoA would be responsible for implementing the budget, and for monitoring the use and the effectiveness of budget funds. It is also very important that there be full transparency of the budget and its allocations vis-à-vis the people of Afghanistan who are intended to be its beneficiaries. This implies making the budget public in an understandable form and also government reporting regularly to the public on actual expenditures in the budget.

21. Although the ARTF will finance only a portion of the overall reconstruction program, it will be closely integrated into the government budget and associated reconstruction and development program, as well as the broader comprehensive framework for Afghanistan’s reconstruction and development. As a manifestation of this integration, and if the donors so wish, the MC could report on the status and progress of the ARTF and its expenditures at SG, IG or later CG meetings. Disbursements from the ARTF would occur only for the agreed categories of eligible expenditures, and would not continue in the event of a significant deviation from the overall GoA program. Disbursements would normally occur within the cost estimates for the three components, and the total level of disbursements would be consistent with the overall macroeconomic and fiscal framework of the government as agreed with the International Monetary Fund and the World Bank. A review of the overall governance arrangements will be undertaken after the first year of operation.

Contributions to the ARTF

22. Donors are encouraged to contribute to the ARTF. All contributions, and correspondingly all payments out of the ARTF, will be on grant basis. Contributions will not be accepted if they are earmarked for a specific component, activity or program funded by the ARTF. When making their contribution, however, donors could designate their non-binding preference that their contribution be matched against a specified component or components of the ARTF (among the three components that comprise the ARTF). Contributions would be allocated among the three components according to decisions of the MC. If one or more of the components of the ARTF becomes oversubscribed in terms of contributions in relation to expected utilization of funds for those components, the MC can decide to discourage contributions designated for those components and instead encourage donors to contribute on an undesignated basis or for components that are underfunded.

23. Within the investment and program component, donors who wish to do so could further indicate their preference that their contribution be matched against one or more broad sectors from the following list: education, health, agriculture/rural development, community development, infrastructure, and other. Reporting on such contributions would include information on the amount of spending from the ARTF on the broad sector(s) concerned. Within the recurrent cost component, donors who wish to do so could also indicate their

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2 The ARTF Administrator would not guarantee that total spending in the broad sector(s) concerned would match or exceed the level of the contribution for which a sectoral preference had been indicated, although this would be expected to be the case under normal circumstances.
preference for contributions to support one or more broad sectors within the government budget.

24. The minimum contribution to the ARTF would be $200,000, as there are various fixed costs associated with processing and reporting on each contribution, and smaller contributions would not be cost-effective. Contributions to the ARTF can be made at any time during the life of the ARTF.

**Duration of the ARTF**

25. Because government recurrent expenditures are normally financed by domestic revenue, the ARTF is intended to provide partial support for this purpose (through the running costs component) only during an initial period when a domestic revenue base is in the process of being established. Hence this component would cease to operate when the situation in Afghanistan approaches fiscal normality. The timetable in the Bonn Agreement provides a general guideline. A first period of *transition*, ending in June 2004 when the permanent government is to be in place, is envisaged to be followed by a two-year period of *consolidation*, during which the new government will make permanent decisions about policy and major activities. The subsequent five years to 2011 are envisaged as the period of *return to normality*. Accordingly, it is envisaged that the ARTF would become effective as soon as possible in early 2002 (see below), and would cease operating around mid-2006, when domestic revenues should have recovered sufficiently for the GoA to finance most or all of its recurrent costs from such revenues. Extensions can be contemplated, however (see below). In particular, if there is strong interest in the donor community in continuing to fund activities under the investment and program component, extension of the duration of the ARTF for this purpose could be considered. Naturally, the need for external assistance on a concessional basis for development programs and investments will continue.

**Modalities of administration**

26. The World Bank will be the Administrator of the ARTF. The Administrator will have the authority to deny ARTF funding to any activity where in its view significant doubts arise as to whether the funds concerned will be effectively utilized for the agreed purpose. The ARTF Administrator will regularly monitor the utilization of funds in each of the three components.

27. In the interest of timely support for reconstruction activities financed through the ARTF, appropriate procedures will be applied for this purpose, including inter alia simplified project design, use of emergency procedures, and project start-up support on the ground, especially in the initial phase. In general, normal World Bank procedures will apply, details of which will be communicated to donors without delay.

**Procurement**

28. In the interest of expeditious assistance, procurement provisions will be as flexible as possible with due consideration for economy and efficiency while still maintaining safeguard
measures to insure that the funds are used only for the purposes specified in the respective grant agreements. The World Bank, as Administrator of the ARTF, would be governed by the provisions of its Operational Policy (OP 14.40, Trust Funds), and any departure from the policies and procedures contained therein should be approved by the World Bank. In general terms, it is expected that for smaller procurements the GoA will adopt simple policies and procedures to govern locally advertised competitive bidding that are acceptable to the Administrator. These procedures would be the guiding rules for all activities under the TF Agreement involving local procurement of goods and works for all agencies undertaking the work of the project. They would be incorporated in the TF Agreement itself, or enacted by separate government regulations and then referred to in the TF Agreement. For large procurements, or in situations in which there is effectively no market sources within country, simplified International Competitive Bidding and Limited International Bidding procedures would apply, with streamlined measures for advertising, bid submission periods and currency provisions. Within preset limits that will be defined in the TF Agreement, International Shopping may also be considered as a streamlined method of procurement. Similarly, agencies or firms engaged for the training component would be selected on the basis of quality and price selection procedures, including international advertising when time permits. In cases where UN agencies are implementing entities for ARTF grants, it is understood that the World Bank procurement policies and procedures to be used, as outlined above, meet standards comparable to those of the UN agencies.

Disbursement

29. Except for police-related activities (see paragraph 12 above), the World Bank will be responsible for all disbursements, in conformity with its own procedures and with the same diligence, and in conformity with the allocations and decisions made by the MC and the broader priorities set in consultation with the GoA and the donor community.

Financial Management

30. It is essential for the effectiveness and success of the ARTF that its resources are utilized and spent for the intended purposes. Special attention will be required during the transitional period until the GoA has built up a track record in terms of effectively functioning financial management and accountability mechanisms, or has contracted such functions out to reputable private firms. A suitably qualified and experienced independent firm (the "Monitoring Agent") will be contracted by the ARTF Administrator to monitor and review disbursements, payments, accounting, and reporting for the activities to be financed by the ARTF, on the basis of terms of reference agreed with the GoA, the Administrator in consultation with the MC, and the Monitoring Agent.

31. The Monitoring Agent would monitor the GoA’s procurement of goods, works and services; screen and recommend for approval withdrawal applications; and monitor expenditures out of the ARTF to ensure that funds are disbursed only for the purposes for which they have been provided, and in accordance with applicable World Bank procedures and acceptable financial and auditing standards. Employment of the Monitoring Agent would take place in accordance with the procurement procedures of the World Bank. While
the Monitoring Agent would not necessarily monitor 100% of transactions, a high sampling ratio should be adopted for review – as much as 25% in the initial period. Moreover, in the case of the investment and program component, 100% of project or program activities above a stipulated size (to be determined) would be reviewed.

32. The fiduciary arrangements for the investment and program component will be carried out in accordance with normal bank procedures as specified to the donors at the commencement of the ARTF. Recipients of investment and program funds under sub grant agreements will, among other things, be required to maintain an appropriate financial management system. The monitoring agent will ensure that the financial management capacity of the recipient is assessed prior to release of funds and that adequate review of financial statements and audits takes place.

33. To the extent possible, the Monitoring Agent would also report on the development impacts achieved by the reconstruction activities that it monitors. Impacts of activities executed by entities other than the GoA and not monitored by the Monitoring Agent would be reported on by the executing entities concerned.

34. The Monitoring Agent would report monthly to the ARTF Administrator which, without acceptance of any responsibility or liability for the performance of the Monitoring Agent, would have the authority to change the terms of reference and, where justified, replace the Monitoring Agent with another firm or agency, in consultation with the other members of the MC as appropriate. The Administrator would perform quarterly ex-post evaluations of the activities undertaken by the Monitoring Agent, and would, upon completion of such activities, arrange for an independent management review of the records maintained by the Monitoring Agent with respect to the expenditures reviewed by the Monitoring Agent, and to report on its findings to the Administrator.

35. The contractual arrangement with the Monitoring Agent will be reviewed and modified when, in the judgment of the ARTF Administrator in consultation with the MC and donor committee, an adequate track record has been built up in terms of the GoA’s financial management and accountability mechanisms, or when the GoA has contracted a reputable private firm acceptable to the ARTF Administrator to handle these functions. It is expected that technical assistance will be provided in an expeditious manner to the GoA, through the ARTF and/or from other financing sources, for capacity building in financial management functions so that GoA can take these over within a reasonable period of time.

Environmental and Social Impacts

36. Urgency and the uncertain security situation require flexibility in applying environmental, social, and related safeguard policies. At the same time, in order to undertake due diligence, avoid causing harm or exacerbating social tensions, and ensure consistent treatment of social and environmental issues, an environmental and social screening and assessment framework will be applied for the ARTF. Its purpose will be to assist executing entities in screening activities for likely social and environmental impacts, identifying documentation and preparation requirements, prioritizing activities, and-for activities
triggering safeguard policies-preparation of necessary mitigation plans. Social screening will include a focus on gender impacts, since Afghan women will need to play an important role in Afghanistan’s reconstruction and development and must be major beneficiaries of such activities. Consultation and disclosure requirements will be simplified. Any departures from standard requirements under any of the World Bank’s environmental and social policies should be approved by the World Bank.

Administrative Charges

37. The World Bank as Administrator of the ARTF would strive for maximum efficiency and effectiveness in administering the ARTF while promoting sound financial management and accountability. To ensure that all required fiduciary and administrative cost elements are adequately funded, the World Bank would apply the following administrative charges:

(a) The costs of the World Bank’s Monitoring Agent (applicable only in the case of GoA-executed activities) will be paid on an actual costs basis, from funds set aside when contributions are received. Previous experience with similar operations suggests that the Monitoring Agent’s costs will vary with the size of the ARTF and could be in the range of 2-3% if the ARTF receives substantial contributions, possibly lower if the ARTF is very large.

(b) The preparation and administration costs of the executing entities (if other than GoA) will be based on estimates provided at the time specific proposals are presented for consideration for funding via the ARTF. Generally, such costs would range from 5 to 7% of the costs of the funding proposal, depending on the executing entity.

(c) The World Bank’s costs as ARTF Administrator (additional to the costs in (a) above) will depend on the breakdown between expenditures incurred under each of the three components as well as on the size of the ARTF. The World Bank’s standard charge for administering multi-donor trust funds is 2%, but due to economies of scale and efficiencies in administration, the charge will be reduced to 1.0-1.5% for the ARTF (on a sliding scale depending on the size of the ARTF).

38. Since the costs under (a) and (b) would not be additive to each other, the total administrative charges associated with the ARTF would thus be in the range of 3-4% for recurrent costs and other activities executed by GoA and on the order of 6-8% for investment projects and programs executed by other entities. Given the limited GoA administrative capacity initially, the dispersed nature of numerous recurrent cost payments and investment activities, and the need to ensure that all funds are used only for the purposes for which they are provided, such a range of administrative charges—which compares favorably with the overheads for existing activities on Afghanistan and international experience—is deemed reasonable.

Monitoring and evaluation
39. A sound, independent monitoring and evaluation mechanism for the entire reconstruction program for Afghanistan is needed. This function should be organized more generally for Afghanistan’s program of reconstruction assistance as a whole, for example by the Implementation Group. In the case of the ARTF, the Administrator would report to the entity (or group) entrusted with such responsibility on the ARTF’s development impacts, funding, activities and disbursements (see also para 33-34). GoA external audits would be required for the ARTF on an annual or more frequent basis, and similarly external audits would be required for activities executed by entities other than the GoA.

Conflict of interest

40. In order to avoid any perceptions of conflict of interest, MC members who would benefit as executing agencies or as co-financiers from specific proposals for ARTF funding would recuse themselves from MC discussions and decisions on those proposals. Each member of the MC would participate in the MC on its own behalf and in a technical capacity, and not on behalf of any other entity or entities.

Effectiveness date

41. The ARTF would become effective (and hence able to start disbursing funds) on the date of signature of the agreement with the first donor or the date of the agreement with the Interim Authority—whichever comes later. Substantial upfront contributions followed by regular continuing contributions will be essential for the smooth functioning of the ARTF and for it to play an effective role in Afghanistan’s reconstruction.

Retroactive financing

42. Retroactive financing for projects and programs in the investment and program component of the ARTF would be considered on a case-by-case basis where appropriate and warranted, with the normal criteria for retroactive financing used by the World Bank serving as a model. Decisions on whether to permit retroactive financing, and to what extent, would be made by the MC at the time when proposals are reviewed. Retroactive financing would not be appropriate for the other components of the ARTF.

Closing date

43. It is recommended that the closing date be 24 months after the establishment of the permanent elected government or end-June 2006, whichever comes first, with the possibility of extensions following the thorough review of the fund operations envisaged for December 2005. (See timetable below.)

Corruption and termination clause

44. No offer, gift or payment, consideration or benefit of any kind which constitutes an illegal or corrupt practice will be made to anyone, either directly or indirectly, as an
inducement or reward for the award or execution of the respective grant agreement. Any such practice will be grounds for terminating the agreement or taking any other corrective action as required.

**Desired funding patterns**

45. The size of the ARTF would depend on the level of contributions and, over time, on the throughput of quality activities financed by the ARTF. (It is expected that good performance would elicit continuing and possibly expanded contributions over time.) No forecast of the likely level of total contributions to the ARTF is being made at this time; however, it is very important to maintain a reasonable balance between what are expected to be by far the two largest components of the ARTF—the investment and program component and the running costs component. Neither one should become overwhelmingly dominant in the overall structure of the ARTF’s finances.

46. Irrespective of the size of the ARTF, the critical need to adequately fund the recurrent budget of the GoA—through a combination of ARTF financing and budget support—is of paramount importance.

**Suggested next steps and indicative timetable**

47. The steps and dates listed after March are indicative.

January 11-20: circulation of drafts of this paper and discussions/comments among WB, UNDP, ADB, and IsDB (with consultations on macroeconomic aspects with the IMF).

Early February: consultations with GoA on the ARTF.

February 8: Advertise for expressions of interest for the Monitoring Agent.

February 12: Draft ARTF paper distributed to donors for discussion.

February 20-21: Donor meeting to discuss ARTF design and processes.

February 27: Final ARTF paper and legal documents distributed to donors.

March 5: Revised ARTF paper and legal documents distributed to donors for comment.

March 12: Donor comments received.

March 19: ARTF paper distributed to World Bank Board of Executive Directors.

March 20-31: ARTF established; MC constituted; ARTF Monitoring Agent selected; logistical and administrative arrangements put in place.

April 15: Monitoring Agent starts assignment in Kabul.

June 1-30: Donor Committee constituted; first quarterly meeting held.

Before end-September 2002: first annual meeting of all contributing donors and GoA to review progress of ARTF and provide guidance on overall policy and allocation issues.

June 2003: review, sponsored by MC, of the implementation of activities financed by ARTF, of their efficiency and effectiveness, and of the operation of the ARTF itself.

June 30, 2006: ARTF ceases operations unless extended; regular recurrent expenditures of the GoA are expected to be largely financed through own revenue and ordinary external current grants.

March 19, 2002