

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-42 Audit Report

Afghanistan Reconstruction Trust Fund: The World Bank Needs to Improve How it Monitors Implementation, Shares Information, and Determines the Impact of Donor Contributions



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SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT SIGAR REVIEWED

Since its establishment in May 2002, the multi-donor Afghanistan Reconstruction Trust Fund (ARTF) has been one of the largest sources of funding to Afghan government operations outside the security sector. The ARTF, administered by the World Bank, is a partnership between 34 donors and the Afghan government to improve the effectiveness of the reconstruction effort. Donors have paid over \$10 billion into the ARTF to provide direct assistance to the government. The United States, represented by the U.S. Agency for International Development (USAID), is the largest contributor to the ARTF, having contributed over \$3 billion as of December 2017.

ARTF funds are allocated between two primary “windows” that have separate, distinct priorities: the Investment Window (IW) and the Recurrent Cost Window (RCW). The IW funds development projects that the Afghan government implements. The RCW reimburses the Afghan government for predictable, recurring, non-security-related Afghan government expenses such as non-uniformed government employee and teacher salaries and government operations and maintenance costs. The World Bank uses two third-party monitors—the Monitoring Agent and Supervisory Agent—to monitor the RCW and IW respectively.

SIGAR issued its first audit report on the ARTF in July 2011. SIGAR found that while the World Bank and the Afghan government had established several mechanisms to independently monitor and account for ARTF funds, additional opportunities existed for strengthening these mechanisms and for enhancing oversight of ARTF funds.

The objectives of this follow-on audit were to (1) assess the extent to which the World Bank, working with the Afghan government, has improved efforts to monitor and account for ARTF funding since 2011; (2) assess the extent to which the World Bank measured and reported to donors on the performance and outcomes of ARTF development projects; and (3) identify the challenges, if any, donors face in holding the Afghan government accountable for ARTF implementation.

April 2018

Afghanistan Reconstruction Trust Fund: The World Bank Needs to Improve How it Monitors Implementation, Shares Information, and Determines the Impact of Donor Contributions

SIGAR 18-42 AUDIT REPORT

WHAT SIGAR FOUND

SIGAR found that continued limitations on, and lack of transparency into, the World Bank’s and the Afghan government’s monitoring and accounting of ARTF funding puts billions of dollars at risk. Although the World Bank has taken steps since 2011 that are intended to improve its monitoring and accounting of the ARTF using third-party monitors—the Monitoring Agent for the RCW and Supervisory Agent for the IW—limitations to their monitoring remain. For example, when approving reimbursements for Afghan government employees’, such as teachers’ salaries, the World Bank does not require the Monitoring Agent to physically verify that the salary recipients exist, despite acknowledging that “the risk of undetected ghost workers [e.g., ghost teachers] increases when the Monitoring Agent is unable to undertake physical verification.” USAID officials told SIGAR in September 2017 that the Bank cannot provide reasonable assurance that ARTF funding, which covers approximately 40 percent of all Afghan civilian expenditures, is reimbursing only proper government expenditures.

In its July 2011 report, SIGAR found that the World Bank did not regularly disseminate reporting on the results and outcomes of ARTF-funded development projects to all ARTF donors. Access to information continued to be a problem during the course of this audit. Specifically, SIGAR found that the World Bank limits donors’ access to information on how it monitors and accounts for ARTF funding, and does not follow its own policy to provide donors and the public with access to certain ARTF records. Although the USAID’s 2012 grant agreement with the World Bank for the ARTF states that the Bank, upon the donor’s request, will share the Monitoring Agent’s “draft and final reports,” internal Bank policy contradicts this agreement. World Bank officials told SIGAR they cannot share the full, detailed Monitoring Agent reports with donors and the public due to the Bank’s own “access to information policy, which dictates which ARTF records it will share with donors and the public.” In another example of a lack of transparency, SIGAR found that a number of key public records are not accessible on the Bank’s ARTF website.

As SIGAR found in 2011, the Afghan government continues to struggle to implement fiduciary controls over ARTF funding. For example, the Monitoring Agent’s work monitoring RCW funding has raised concerns that the Afghan government’s ability to support its civilian expenses has diminished over time. According to the World Bank, this is due to a lack of support and improper application of Afghan procurement policies. As the U.S. Government Accountability Office reported in 2011, the World Bank considers the level of ineligible expenditures to be an indicator of weaknesses in the Afghan government’s ability to meet agreed-upon procurement and financial management standards. This is also concerning because the Monitoring Agent is supposed to be building the Afghan’s capacity to handle these internal controls.

Based on its review of six IW-funded development projects that accounted for more than \$2.25 billion of the \$4.88 billion spent on all of the projects as of December 2017, SIGAR found that the World Bank is not consistently complying with its own guidance for measuring and reporting on ARTF performance and outcomes of development projects. SIGAR found several instances where the Bank did not measure and report on the projects' performance in accordance with that guidance. This occurred because the Bank did not develop performance indicators in line with guidance, did not provide specific quantitative or qualitative status information for performance indicators, or did not provide clear support or justification for performance and progress ratings it gave projects. For example, in the Education Quality Improvement Program II implementation status and results report (ISR), completed almost 8 years into the program's implementation, World Bank staff did not report current information for 21 of the 46 indicators. Without current and accurate project status information, the World Bank and ARTF donors are not able to accurately monitor the projects' progress. In the December 2015 ISR for the Afghanistan Agriculture Inputs Project, completed about 2 and a half years into the program's implementation, World Bank evaluators gave the project a "Moderately Satisfactory" rating for its overall progress. However, the Bank did not clearly justify or support this rating because the Bank also reported that the project had not made any progress on nearly 70 percent of its performance indicators. Without further narrative and explanation in the ISRs, it is unclear how a project not making progress on more than two thirds of its performance indicators is facing only moderate shortcomings. The World Bank's issues with performance management appear to be a recurring problem and raise concerns about the credibility and effectiveness of the World Bank's project performance reporting.

SIGAR could not fully assess the extent to which the World Bank is measuring and reporting on performance across the six projects because of a lack of transparency and the Bank's restrictions on access to information on the Supervisory Agent's monitoring work and findings. For example, SIGAR determined that 9 of 69 ISRs for the six projects were not made available to SIGAR and are not accessible on the Bank's public website. As a result, donors and the public did not have access to key performance information to understand the progress and achievements being made in sequential ARTF development projects. Furthermore, the World Bank apparently only became aware of this problem after SIGAR's auditors informed Bank officials that they were missing from the website.

While the World Bank has taken steps that it believes will improve its ability to evaluate overall ARTF performance, it is still unable to accurately measure ARTF sector-level or overall performance. Since SIGAR's 2011 audit, the World Bank has produced an annual "ARTF Scorecard" with information on the ARTF's overall performance and results achieved. However, there are deficiencies in the Bank's use of and reporting in the Scorecard. Without an accurate, reliable evaluation, the World Bank will be unable to determine the impact that about \$10 billion in donor funding has had in improving Afghan development.

Finally, SIGAR found that the World Bank and donors face challenges holding the Afghan government accountable for ARTF implementation. The ARTF is structured to enable the Afghan government, as the recipient, to have flexibility in how it uses donor funding to carry out development activities and to finance the government's investments and recurring needs. However, this flexibility results in three challenges that prevent the World Bank and donors from addressing any poorly performing ARTF projects the Afghan government implements: the World Bank and donors lack the ability to adjust the scope of ongoing projects without the Afghan government's agreement, lack the ability to withhold funding from the ARTF altogether or recover ARTF money based on ARTF performance, and do not use or enforce conditionality on ARTF funds. For example, the World Bank, through its efforts to measure IW projects' performance, may identify a project as a poor performer, but without the Afghan government's agreement to adjust the project, the World Bank and donors will continue to fund the project. Furthermore, the ARTF has no mechanism for the World Bank or donors to withhold funding from the ARTF altogether or recover money from the Afghan government based on a project's performance or the Afghan government's implementation of a project once donors have paid into the fund or after the World Bank disburses the funds to the government. A senior aide to Afghanistan's President told us that the structure of the ARTF allows for ill-conceived projects to be funded because there is no repayment obligation and that dysfunctional projects are nearly impossible to eliminate. He also said that there is political pressure to spend ARTF funds, even if the programs and projects being funded are ill-conceived or unneeded, or risk losing future funding. In addition, World Bank officials told us that the World Bank and donors do not use or enforce conditionality on ARTF funding—that is, they said, linking the disbursement of ARTF funds to the Afghan government meeting certain defined conditions established as "legal covenants" in ARTF grant agreements. While the Bank can restrict the availability and disbursement of ARTF funding to particular projects and activities based on performance, World Bank officials told us that the ARTF does not use conditionality or other mechanisms that would restrict disbursement of ARTF funding in general, because this would go against the ARTF's priority to pursue all opportunities for spending available funding on the Afghan government.

USAID officials told SIGAR the agency intends to hold the World Bank and Afghan government more accountable for ARTF performance and transparency by making it clear that the agency will reduce future 2018 contributions to the fund if the Bank and Afghan government do not take concrete steps to implement reforms. These reforms would include addressing the challenges to monitoring ARTF performance and improving transparency. In December 2017, USAID officials told SIGAR that the proposals to improve the monitoring of the ARTF, if implemented, should address these types of challenges. Previously, in September 2017, USAID told SIGAR that the agency requested that the Bank allow donors to preference ARTF funding by geographic location to divert money and development support away from areas known to be under the control of the Taliban or other insurgent and extremist organizations. USAID

and other donors are concerned that ARTF funding is supporting development efforts in Taliban and other insurgent-controlled areas, something the Supervisory Agent has acknowledged in its monitoring reports. However, in December 2017, following the completion of SIGAR's fieldwork, USAID officials told SIGAR they are no longer pursuing the option to preference funds by geographic location. Despite SIGAR's request, the officials did not explain why USAID's position changed. In April 2018, in response to a draft of this report, USAID told SIGAR that it is satisfied that the World Bank's proposed changes to improve monitoring "will deliver adequate supervision of funds to ensure no funds are used to legitimize insurgents." USAID is also working with donors, the World Bank, and the Afghan government to have the ARTF's 2018 to 2020 Financing Strategy focus on increasing incentive-based and results-based investments to reward Afghan government performance.

WHAT SIGAR RECOMMENDS

To improve overall World Bank monitoring and accounting of ARTF funding, SIGAR recommends that the USAID Administrator, as the U.S. government's ARTF representative, work with the World Bank to:

- 1. Expand the scope of the Monitoring Agent's physical verification of Afghan government employees' salaries to include methods for performing verifications in insecure areas, and require the Monitoring Agent to use the verification results when calculating the eligibility rate.**
- 2. Plan and implement specific steps to improve donor access to information regarding how ARTF funds are managed, including addressing gaps in public records available online, and providing the donors access to the full, complete Monitoring Agent reports.**
- 3. Incorporate a requirement in the U.S. ARTF grant agreement that the World Bank periodically conduct and share performance evaluations of the Monitoring Agent and Supervisory Agent with donors and the public.**

To strengthen ongoing and future measuring and assessing of ARTF development project- and sector-level performance, SIGAR recommends that the USAID Administrator, in consultation with other ARTF donors:

- 4. Work with the World Bank to ensure that the Bank fully adheres to and implements its own existing performance measurement guidance when measuring the performance of the ARTF and its development projects.**

To help donors address challenges facing the effective implementation of ARTF funding, SIGAR recommends that the USAID Administrator, in consultation with other ARTF donors and the World Bank, consider making the following changes to the operation of the ARTF:

- 5. Allow donors to (a) cancel or adjust the scope of projects that are failing, in danger of failing, or that do not otherwise meet desired program objectives; (b) withhold or recover money from the Afghan government based on a project's performance or the Afghan government's implementation of the project; and (c) incorporate conditionality mechanisms into the ARTF funding scheme by linking funding to specific agreed-upon conditions.**

SIGAR received written comments on a draft of this report from USAID's Office of Afghanistan and Pakistan Affairs, and the World Bank's Afghanistan Country Office. USAID concurred with the second, third, and fourth recommendations; partially concurred with the first recommendation; and did not concur with the fifth recommendation. The World Bank concurred with the second and fourth recommendations, partially concurred with the first and third recommendations, and did not concur with the fifth recommendation. In regards to the fifth recommendation, USAID stated that the three subparts of the recommendation are inconsistent with the structure of the trust fund mechanism, and "fall outside of USAID's discretion to implement." USAID also stated that the ARTF Management Committee is the sole body responsible for making funding-allocation decisions, including canceling projects. However, ARTF donors do have the ability to influence the committee since they have control over whether and how much to contribute to the fund. The World Bank commented that the recommendation "contradicts the internationally recognized principles and practices of pooling donor funding for increased efficiency and effectiveness." The Bank did not elaborate on what contradiction exists and only asserted that it cannot allow individual donors "to unilaterally adjust the scope of a project." In the recommendation, SIGAR does not state that USAID or other donors should act unilaterally. Instead, SIGAR states that USAID should consult with other donors and the World Bank to consider making changes. Additionally, as USAID claimed in its comments, "both donors and the World Bank have the ability to identify poorly performing projects during implementation and engage in discussions with the GOA [Government of Afghanistan] on the need for timely corrective measures...." USAID has not offered any clear reason as to why it would oppose strengthening and formalizing this ability to address the problem of poorly performing projects. Therefore, SIGAR believes its recommendation is valid and should be implemented.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

April 19, 2018

The Honorable John Bass
U.S. Ambassador to Afghanistan

The Honorable Mark Green
Administrator, U.S. Agency for International Development

Mr. Herbert B. Smith
USAID Mission Director for Afghanistan

This report discusses the results of SIGAR's audit of the World Bank's administration and oversight of the Afghanistan Reconstruction Trust Fund (ARTF). Since its establishment in May 2002, the multi-donor ARTF has been the largest contributor to the Afghan government's recurrent budget for both operating costs and priority development projects, with donors having paid over \$10 billion into the ARTF to provide on-budget funding to the government. SIGAR issued its first audit report on the ARTF in July 2011. Given its continued importance to the reconstruction efforts, we decided to revisit the ARTF to understand if and how the World Bank has improved its oversight and reporting of ARTF funds.

We are making five recommendations. We recommend that the U.S. Agency for International Development (USAID) Administrator, as the U.S. government's ARTF representative, work with the World Bank to (1) expand the scope of the Monitoring Agent's physical verification of Afghan government employees' salaries to include methods for performing verifications in insecure areas, and require the Monitoring Agent to use the verification results when calculating the eligibility rate; (2) plan and implement specific steps to improve donor access to information regarding how ARTF funds are managed, including addressing gaps in public records available online, and providing the donors access to the full, complete Monitoring Agent reports; and (3) incorporate a requirement in the U.S. ARTF grant agreement that the World Bank periodically conduct and share performance evaluations of the Monitoring Agent and Supervisory Agent with donors and the public. We also recommend that the USAID Administrator, in consultation with other ARTF donors, (4) work with the World Bank to ensure that the Bank fully adheres to and implements its own existing performance measurement guidance when measuring the performance of the ARTF and its development projects. We also recommend that the USAID Administrator, in consultation with other ARTF donors and the World Bank, consider making the following changes to the operation of the ARTF, (5) allow donors to (a) cancel or adjust the scope of projects that are failing, in danger of failing, or that do not otherwise meet desired program objectives; (b) withhold or recover money from the Afghan government based on a project's performance or the Afghan government's implementation of the project; and (c) incorporate conditionality mechanisms into the ARTF funding scheme by linking funding to specific agreed-upon conditions.

We received written comments on a draft of this report from USAID's Office of Afghanistan and Pakistan Affairs and the World Bank's Afghanistan Country Office, which are reproduced in appendices III and IV, respectively. Both also provided technical comments, which we incorporated into the report as appropriate. USAID concurred with the second, third, and fourth recommendations; partially concurred with the first recommendation; and did not concur with the fifth recommendation. The World Bank concurred with the second and fourth recommendations, partially concurred with the first and third recommendations, and did not concur with the fifth recommendation. In regards to the fifth recommendation, USAID stated that the three subparts of the recommendation are inconsistent with the structure of the trust fund mechanism, and "fall outside of USAID's discretion to implement." USAID also stated that the ARTF Management Committee is the sole body responsible for making funding-allocation decisions, including canceling projects. However, ARTF



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donors do have the ability to influence the committee since they have control over whether and how much to contribute to the fund. The World Bank commented that our recommendation “contradicts the internationally recognized principles and practices of pooling donor funding for increased efficiency and effectiveness.” The Bank did not elaborate on what contradiction exists and only asserted that it cannot allow individual donors “to unilaterally adjust the scope of a project.” In our recommendation, we do not state that USAID or other donors should act unilaterally. Instead, we state that USAID should consult with other donors and the World Bank to consider making changes. Additionally, as USAID claimed in its comments, “both donors and the World Bank have the ability to identify poorly performing projects during implementation and engage in discussions with the GOA [Government of Afghanistan] on the need for timely corrective measures....” USAID has not offered any clear reason as to why it would oppose strengthening and formalizing this ability to address the problem of poorly performing projects. Therefore, we believe our recommendation is valid and should be implemented.

SIGAR conducted this work under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended; and in accordance with generally accepted government auditing standards.

Gene Aloise

Deputy Inspector General, Office of the Special
Inspector General for Afghanistan Reconstruction

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ABBREVIATIONS

ARTF	Afghanistan Reconstruction Trust Fund
ISR	implementation status and results report
IW	Investment Window
MOF	Ministry of Finance
RCW	Recurrent Cost Window
SAO	Supreme Audit Office of Afghanistan
USAID	U.S. Agency for International Development
USAID/Afghanistan	USAID Mission for Afghanistan
USAID OIG	USAID Office of the Inspector General

International, multi-donor support is crucial to Afghanistan reconstruction efforts. Since its establishment in May 2002, the multi-donor Afghanistan Reconstruction Trust Fund (ARTF) has been the largest contributor to the Afghan government's recurrent budget for both operating costs and priority development projects, with donors having paid over \$10 billion into the ARTF to provide on-budget funding to the government.¹ The ARTF, administered by the World Bank, is a partnership between the international community and the Afghan government to improve the effectiveness of the reconstruction effort. The multi-donor trust fund has been supported by 34 donors, including the United States, represented through the U.S. Agency for International Development (USAID). The Afghan Ministry of Finance (MOF) is the designated trust fund recipient representative. The United States is the largest contributor to the ARTF, having paid in over \$3 billion, or about 31 percent of total funding, as of December 2017.²

In July 2011, we reported that while the World Bank and the Afghan government had established several mechanisms to independently monitor and account for ARTF funds, additional opportunities existed for strengthening these mechanisms and enhancing oversight of ARTF funds.³ To help improve oversight of the ARTF, we made three recommendations to the U.S. Ambassador to Afghanistan—who directs and coordinates State and USAID offices and personnel at the U.S. Embassy in Kabul—to help improve third-party monitoring of the ARTF, improve reporting to donors on the results and outcomes of ARTF development projects, and assist the Afghan government's ability to attract and retain qualified staff. In response, the U.S. Embassy in Kabul and the World Bank noted actions the World Bank planned to take including expanding monitoring of the ARTF to require site visits to the provinces and enhancing reporting to donors on ARTF results and outcomes. Given its continued importance to the reconstruction efforts, we decided to revisit the ARTF to understand if and how the World Bank has improved its oversight and reporting of ARTF funds.

The objectives of this follow-on audit were to (1) assess the extent to which the World Bank, working with the Afghan government, has improved efforts to monitor and account for ARTF funding since 2011; (2) assess the extent to which the World Bank measured and reported to donors on the performance and outcomes of ARTF development projects; and (3) identify the challenges, if any, donors face in holding the Afghan government accountable for ARTF implementation.

To accomplish these objectives, we reviewed World Bank and USAID ARTF grant award agreements; the ARTF financing strategy and financial reporting documents; ARTF governance and meeting minutes; World Bank policies and reporting for administering, monitoring, and evaluating the ARTF; and World Bank-contracted third-party monitor legal agreements. We interviewed and requested information from current World Bank officials working both in headquarters in Washington, D.C., and in the Kabul, Afghanistan country office responsible for administering the ARTF and helping implement and evaluate its projects; USAID officials in the USAID Mission for Afghanistan and the Office of Pakistan and Afghanistan Affairs; and past and present World Bank-contracted ARTF third-party monitors, such as International Relief and Development Inc. (now known as Blumont) and Binder Dijker Otte International. In addition, we met with and requested information from Afghan government ARTF representatives in the MOF's Aid Management and General Budget Directorates and the Ministry of Rural Rehabilitation and Development; the Social Development Advisor to President Ashraf Ghani; and other ARTF donor country representatives from Australia, Canada, Denmark, the European Union, Germany, Sweden, and the United Kingdom. We also selected six ARTF projects to better understand how the World Bank measures project performance. We conducted our work in Washington, D.C., and Kabul,

¹ On-budget funding is channeled through the Afghan government's core budget and is assistance intended to allow the Afghans more freedom to manage their own budget and to build their capacity for doing so. On-budget funding can take many forms, including direct bilateral assistance, contributions to multi-donor trust funds, and direct budget support.

² The United States contributes more to the ARTF than it does to any other multi-donor trust fund in the world.

³ See SIGAR, *The World Bank and the Afghan Government Have Established Mechanisms to Monitor and Account for Funds Contributed to the Afghanistan Reconstruction Trust Fund, but Some Limitations and Challenges Should Be Addressed*, SIGAR Audit 11-14, July 22, 2011.

Afghanistan, from December 2015 to April 2018, in accordance with generally accepted government auditing standards. A detailed discussion of our scope and methodology can be found in appendix I.

BACKGROUND

Purpose and Components of the ARTF

The ARTF is primarily a recipient-executed trust fund, through which funds donated by the United States and other nations pass through the World Bank to the Afghan government, with the Bank playing an operational role to include appraising and supervising funded activities.⁴ The ARTF's main objectives are to (1) position the Afghan government budget as the key vehicle to align international reconstruction assistance with Afghan development objectives, (2) promote transparency and accountability of reconstruction assistance, (3) reduce the burden on an Afghan government with limited capacity while simultaneously promoting Afghan capacity building over time, and (4) enhance donor coordination.

The ARTF was initially intended to serve as a short-term source of on-budget funding for the Afghan government's non-security-related operating budget, until the government could raise enough revenue to cover its own operating costs. However, the life of the fund has since been extended three times from its initial closing date of June 30, 2006, to the current closing date of December 31, 2025.⁵ USAID awarded its initial ARTF grant agreement to the World Bank in June 2002 for \$5 million. This agreement was modified 39 times. In March 2012, the current, second grant agreement started and has been modified 25 times.⁶ The modifications to the grant agreements allow USAID to continually fund and extend support for the implementation of the trust fund.

ARTF strategic and programmatic efforts are aligned with the Afghanistan National Development Strategy and the Afghan government's National Priority Programs, which consist of national development priorities aimed to improve government service delivery, job creation, economic growth, protection of all Afghan citizens' rights, and durable and inclusive peace. ARTF funding is further guided by the ARTF Financing Strategy, a 3-year rolling allocation plan that sets the overarching strategic allocation of the fund for recurrent cost expenditures, investment financing and monitoring, and results reporting.

ARTF funds are allocated between two primary "windows" that have separate, distinct priorities: the Investment Window (IW) and the Recurrent Cost Window (RCW).⁷ The IW funds individual development projects that the Afghan government implements to address Afghan priority programs in the agriculture, rural development, infrastructure, human development, social development, technical assistance, and governance sectors. As of December 2017, World Bank officials told us that IW has funded 37 closed projects and 25 ongoing projects supporting the Afghanistan National Development Strategy and the Afghan government's

⁴ World Bank officials told us that the ARTF includes some World Bank-executed funding, such as the Research and Analysis Program. This program was added to the ARTF in 2015 to facilitate and promote evidence-based policy research through project-based and selected sector-wide, thematic research and impact evaluation. In August 2017, the World Bank and donors proposed to terminate and replace this program with an expanded World Bank-executed advisory services, implementation support, and technical assistance facility.

⁵ The September 2015 ARTF Steering Committee meeting minutes stated that the most recent extension from June 30, 2020, to December 31, 2025, was needed to avoid cutting off the implementation of projects already funded, and that the 2020 cutoff date would have limited the ARTF to only continue funding projects that could be completed prior to June 30, 2020.

⁶ USAID, "USAID Contribution to the Afghanistan Reconstruction Trust Fund ("ARTF") No. TF050576, USAID Grant Agreement No. 306-G-00-12-00016-00; World Bank Letter Agreement No. EEE-G-00-02-00025-00," March 31, 2012.

⁷ "Window" is the term the World Bank uses to describe the Investment and Recurrent Cost components of the ARTF. Window is a term for the World Bank's accounts for allocating donor funding.

National Priority Programs.⁸ The RCW reimburses the Afghan government for predictable, recurring, non-security-related Afghan government expenses, such as non-uniformed government employee and teacher salaries, and government operation and maintenance costs.⁹ The RCW is divided into three separate funding components: (1) the ARTF “baseline funding,” (2) the Incentive Program, and (3) Ad-Hoc payments.¹⁰ The World Bank has reported that the ARTF baseline funding will continue to decline each year, with funding priorities shifted to the Incentive Program and IW development projects. The World Bank and USAID told us ARTF baseline funding will be fully phased out in 2018. According to the World Bank, as of December 2017, nearly \$4.66 billion of ARTF funds had been disbursed to the RCW and almost \$4.13 billion disbursed to the IW.

ARTF funding also covers operational items, such as the World Bank’s costs to administer the fund and fees it pays for the contracted third-party monitors.

ARTF Donor Funding

The *USAID ARTF Grant Agreement No. 306-G-00-12-00016-00* (hereafter referred to as the USAID ARTF Grant Agreement) sets the terms and conditions that govern U.S. involvement in the ARTF. USAID provides funding to the ARTF through grant contributions to the World Bank. As the U.S. donor representative for the ARTF, USAID is responsible for managing U.S. contributions to the ARTF. However, under the multi-donor trust fund mechanism, once the U.S. or any other donor provides its contributions to the fund, neither the World Bank nor USAID can account for how those funds are specifically spent. USAID relies on the World Bank to monitor and account for ARTF funding.¹¹

Donors generally make annual funding pledges to the ARTF. Donors cannot earmark their individual contributions for specific ARTF activities, but they can state preferences for up to 50 percent of their annual contribution. However, the World Bank does not guarantee preferences and has the discretion to determine what to honor for each donor. See Figure 1 for information on the donors to the ARTF and appendix II for a complete list of donors.

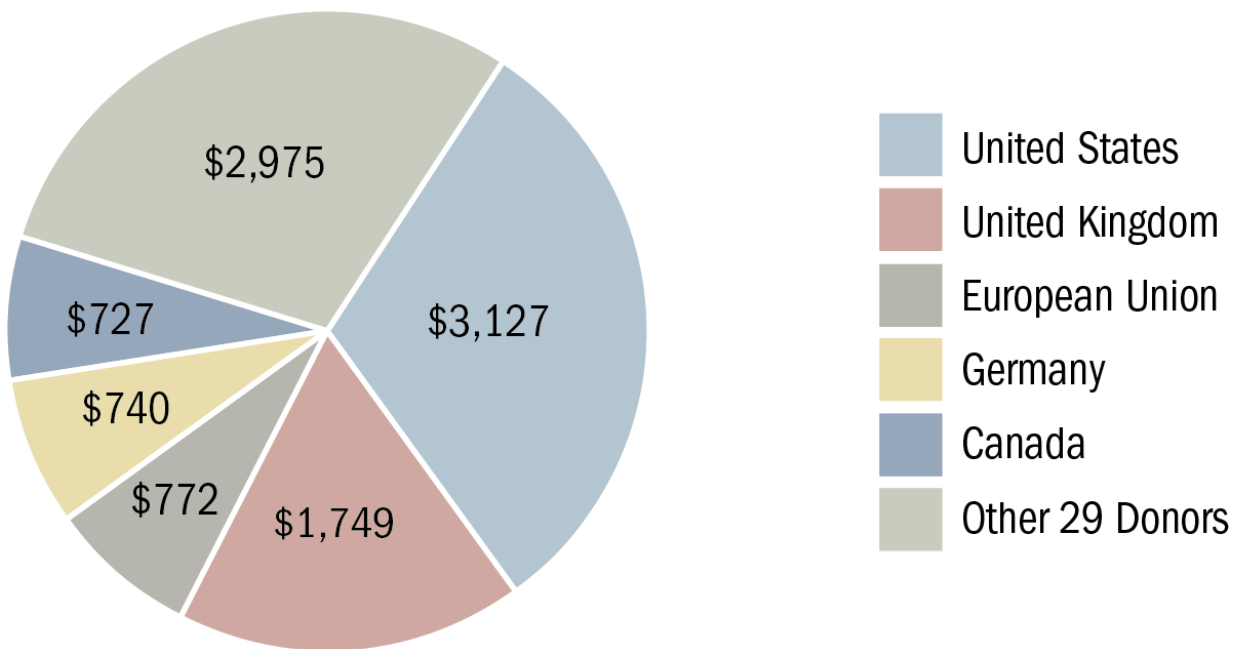
⁸ We report figures for the amount of closed and ongoing projects that World Bank officials identified but note inconsistencies between these figures with information publicly available and reported on World Bank websites.

⁹ RCW funding includes reimbursement for Afghan recurrent expenditures set forth in the Government's ordinary budget relating to wages, benefits, and other payments for civil servants; pension payments; debt service obligations including interest, fees, and other charges; and operation and maintenance costs; but excluding expenditures for military, paramilitary, and the police. Capital expenditures relating to goods, including office furniture and equipment as set forth in the Government's ordinary budget, and small works for repairs of Government buildings, are eligible for funding from the ARTF RCW. One exception to this in the past was the United Nations Development Programme's one-time pass-through funding in 2002-2003 for its Law and Order Trust Fund for Afghanistan.

¹⁰ ARTF “baseline” funding was established to provide predictable and transparent operating budget support for Afghan government expenses. ARTF baseline funding reimburses the government up to a pre-determined annual funding cap for a portion of eligible, non-security-related expenses. The ARTF Incentive Program was established to financially incentivize the Afghan government to achieve specific reforms aimed at achieving greater fiscal independence and sustainability through increasing domestic revenue-earning capabilities and strengthening financial management practices. Ad-Hoc payments are bilateral funding agreements between a donor and the Afghan government above and beyond ARTF multi-donor funding. This component only serves as a pass-through funding mechanism for the bilateral payments. The World Bank, as ARTF Administrator, is not privy to, and therefore not subject to, oversight or due diligence associated with Ad-Hoc payments. As a result, we determined that Ad-Hoc payments were outside the scope of our audit.

¹¹ In 2014, the House Committee on Appropriations directed the Department of the Treasury to report on “the level of United States contributions to World Bank-administered trust funds in fiscal years 2013 and 2014 by trust fund and source of contribution, a description of fiduciary and performance oversight of such trust funds and steps needed for improvement, and an assessment for each trust fund as to whether mismanagement, including any cases of double charging for services and programs, has taken place in fiscal years 2013 and 2014.” H. Rep. No. 113-499, at 69 (2014). The department’s subsequent December 2015 report mentioned the ARTF as an example of one trust fund recipient.

Figure 1 - Donor Contributions Paid Into the ARTF From 2002 to 2017 (in Millions)



Source: SIGAR analysis of World Bank data.

ARTF Governance Structure

The ARTF is governed by three entities: the Steering Committee, the Management Committee, and the World Bank, as the Administrator.¹² The Steering Committee functions as the fund’s decision-making body and sets ARTF policy and strategy.¹³ The Management Committee reviews and approves funding allocations and implements the ARTF Financing Strategy. The World Bank, as the ARTF administrator, has responsibility for the day-to-day fiduciary oversight and management of the fund, and supervision of development projects.

Although USAID does not independently oversee the use of U.S. contributions to the fund, per its grant agreement with the World Bank, the agency does have limited rights to audit U.S. contributions to ensure the funds are used for their intended purposes.¹⁴ An August 2017 audit report from the USAID Office of the Inspector General (OIG) focused on USAID’s oversight of the ARTF and the extent to which USAID has exercised its limited rights.¹⁵ USAID OIG reported that USAID lacked adequate guidance and plans for making ARTF contributions, had not adequately measured or reported on how the ARTF assists in achieving USAID development objectives, and neglected key responsibilities for evaluating and monitoring ARTF contributions.

¹² The Steering Committee is made up of the ARTF donors, the World Bank, and the MOF. The Management Committee consists of representatives from the World Bank, the Asian Development Bank, the Islamic Development Bank, the United Nations Development Programme, and the MOF, with the United Nations Assistance Mission in Afghanistan as observer.

¹³ The Steering Committee is supported by three technical working groups: the Strategy Group, Incentive Program Working Group, and Gender Working Group.

¹⁴ USAID Automated Directives System 308, “Awards to Public International Organizations” states that USAID policies are applicable to funds given to public international organizations, such as the World Bank. For example, USAID has the ability to conduct reviews and evaluations of ARTF. However, USAID will “generally rely on the PIO’s [public international organization’s] audit policies and procedures.” Once USAID disburses funds to the World Bank, it relies on the Bank to perform fiduciary responsibilities and oversight.

¹⁵ USAID OIG, *USAID Planning and Monitoring Gaps Weaken Accountability for Results Through the Afghanistan Reconstruction Trust Fund*, Audit Report 8-306-17-004-P, August 2017.

As a result of its findings, USAID OIG made 11 recommendations to USAID to improve the agency's oversight practices and better ensure the ARTF supports USAID's development objectives in Afghanistan. USAID concurred with all but one recommendation.¹⁶

ARTF Oversight

The Afghan government, as the ARTF recipient and project implementer, and the World Bank, as the fund's administrator, are responsible for reporting on the use of ARTF funds and the performance and results of ARTF projects. The World Bank uses two broad frameworks to guide its monitoring and tracking of ARTF funding, and its monitoring and evaluation of ARTF activities: the ARTF Fiduciary Framework and the ARTF Results Management Framework.¹⁷

The World Bank's ARTF Fiduciary Framework establishes fiduciary controls for the Afghan government and the Bank's fiscal oversight of the ARTF. These controls are performed at multiple levels:

1. Afghan implementing agencies and the MOF that receive donor-funded technical assistance and monitor and account for it through, for example, government systems for budgeting, internal control, and internal audit, and provide periodic implementation status reports for the World Bank, such as MOF updates on government progress towards ARTF reform benchmarks;
2. external audits of ARTF grants, to include the Supreme Audit Office of Afghanistan's (SAO) audits of the government's records of all ARTF expenditures;¹⁸
3. customized arrangements for specific ARTF projects, to include Afghan community monitoring at district and provincial levels;
4. World Bank technical staff supporting the implementation of ARTF development projects who conduct physical verification at project sites, among other things; and
5. Third-party monitors that conduct compliance and verification work on the RCW.

Similarly, the Results Management Framework guides the World Bank's approach to monitoring, evaluating, and reporting on ARTF performance at multiple levels through the use of:

1. World Bank and contracted technical staff responsible for supporting the Afghan government's implementation of ARTF development projects, to include World Bank technical teams completing periodic implementation status reports on projects;
2. World Bank Afghanistan Country Office staff administering the ARTF who compile the ARTF Biannual Reports and other documents; and
3. Third-party monitors that conduct compliance and verification work on the IW.

See table 1 for more on the roles and responsibilities of the World Bank's third-party monitors.

¹⁶ *Id.* USAID disagreed that it should establish "a monitoring and evaluation plan that encompasses all Afghanistan Reconstruction Trust Fund contributions," stating that it is the World Bank's contractual obligation to conduct the monitoring and evaluation of the ARTF.

¹⁷ We did not assess the quality of the two frameworks or the extent to which the World Bank implemented them. Instead, we assessed the extent to which the Bank and the Afghan government used the mechanisms identified in the frameworks to conduct their oversight of the ARTF.

¹⁸ The Supreme Audit Office of Afghanistan was previously known as Afghanistan's Control and Audit Office.

Table 1 - ARTF Third-Party Monitors' Roles and Responsibilities

ARTF Third-Party Monitor	Roles and Responsibilities
Monitoring Agent	The Monitoring Agent, currently Binder Dijker Otte International, is the World Bank's third-party monitor of the RCW. The Monitoring Agent is responsible for monitoring and reporting on the implementation of the RCW, to include determining the eligibility of government salaries and other recurring civilian operating expenses the Afghan government submits for ARTF reimbursement. ^a Monitoring Agent monitoring includes desk reviews of expenditures paperwork and sampled physical verification through site visits.
Supervisory Agent	The Supervisory Agent, currently Management Systems International, is the World Bank's third-party monitor of the IW. The Supervisory Agent is responsible for monitoring six IW development projects—the Education Quality Improvement Program, Afghanistan Rural Access Program, National Solidarity Program, Irrigation Rehabilitation and Development Program, On-Farm Water Management Program, and the Afghanistan Power System Development Project—and conducting asset verification, quality assurance, and data mapping. ^b

Source: SIGAR analysis of World Bank data.

Notes:

^a ARTF criteria for determining reimbursement eligibility include stipulations that expenditures must be included in the Afghan government's annual budget; all goods and services must be procured and accounted for in accordance with Afghan government law and regulations; and capitalized goods and works need to be procured in accordance with the World Bank's procurement guidelines. No military expenditures qualify for reimbursement.

^b In December 2017, World Bank officials told us that the Bank expanded the scope of the Supervisory Agent's work in late 2016 to include the Afghanistan Power System Development Project. However, this project was not cited in the documents publicly available on the World Bank's websites or in documentary evidence reporting on the other five projects.

LIMITATIONS ON AND LACK OF TRANSPARENCY INTO THE WORLD BANK'S AND THE AFGHAN GOVERNMENT'S MONITORING AND ACCOUNTING OF ARTF FUNDING PUT FUNDS AT RISK

We found limitations with (1) the World Bank's monitoring of the ARTF, (2) transparency regarding the monitoring and accounting of ARTF funding, and (3) the Afghan government's fiduciary controls. All of these limitations put ARTF funds, and by extension, USAID's contributions, at risk of being spent improperly. Since our July 2011 audit, the World Bank has taken steps to improve its monitoring and accounting of the ARTF through its use of third-party monitors. Although we found that the Bank has improved and increased the roles of the Monitoring Agent and Supervisory Agent, limitations to their monitoring of the RCW and IW, respectively, remain. The World Bank and donors also have not specifically evaluated the third-party monitors' performance to better understand their abilities and how to improve future monitoring. Our July 2011 report found that the World Bank did not regularly disseminate reporting on the results and outcomes of ARTF-funded development projects to all ARTF donors. During the course of this audit, we found further limitations in what the World Bank provides to donors. Specifically, the World Bank restricts donor and public access to how it monitors and accounts for ARTF funding, leaving donors, and their taxpayers, without important information necessary to understand the activities they fund. As the beneficiary of ARTF funding, the Afghan government is also responsible for helping monitor and account for ARTF funding. However, it is still unable to fully support and document how and why expenditures are eligible for ARTF reimbursement and to conduct fiduciary controls on all ARTF expenditures.

The World Bank has Taken Steps to Improve Its Monitoring and Accounting of ARTF Funding, But Limitations Remain

The World Bank Has Expanded the Monitoring Agent's Oversight of the RCW, But Limitations Still Exist

The World Bank has taken steps to increase and improve the mechanisms it uses to monitor and account for RCW funding since our 2011 audit by expanding the Monitoring Agent's scope of work and having it perform more field visits outside of Kabul. The Bank provides RCW funding to the Afghan government on a reimbursable basis. The Monitoring Agent's primary responsibility is to determine whether the government's recurring civilian expenses are eligible for reimbursement. As part of this role, the Monitoring Agent uses representative samples to test the entire population of potentially eligible Afghan government expenditures, which amounts to the entire civilian recurrent budget, and uses the results to calculate an eligibility rate.

World Bank staff reported that the Bank expanded the Monitoring Agent's scope of work in 2014 to better determine the reimbursement eligibility of recurring Afghan government expenditures by further ensuring that the government's expenditure records comply with its own laws, policies, procedures, and fiduciary standards, and to, among other things, perform physical verification of payroll records and the existence of government employees, such as teachers, receiving salaries.¹⁹ Per the June 2016 *Monitoring Agent Terms of Reference*, the Monitoring Agent's objectives are to:

- monitor ARTF payment and reimbursement for eligible Afghan government expenditures,
- review expenses for compliance with Afghan government and ARTF requirements,
- conduct site visits to government offices in Kabul and the provinces to substantiate the validity and eligibility of expenditures submitted for ARTF reimbursement,
- provide assurance that Afghan data provided complies with eligibility criteria for receiving reimbursement, and
- verify payrolls against an Afghan civil service headcount database.

In particular, the Monitoring Agent must "establish *bona fides*" of, for example, employees' salaries submitted to World Bank for review and ARTF reimbursement.²⁰

As part of the Monitoring Agent's increased scope of work to perform physical verification, the Monitoring Agent is required to conduct site visits and representative sampling of Afghan government expenditures across various ministries and locations. As a result, since 2011, the Monitoring Agent has conducted more field visits outside of Kabul. In our July 2011 audit, we reported that the Monitoring Agent had not conducted any field visits to locations outside Kabul from March 2009 to July 2011, a period of over 2 years. As of February 2017, the World Bank reported that the Monitoring Agent had conducted visits in 32 of the 34 provinces, 31 more provinces than in 2011.

Although the World Bank has improved its monitoring and accounting of RCW funding, limitations still affect the work performed. For instance, the World Bank reported that it initially added physical verification to its scope of work in 2014 in response to donor concerns about the risk that RCW funding reimburses expenditures for ghost employees on the Afghan government's payroll, and to help "gain assurance that the

¹⁹ The World Bank reports that the Monitoring Agent's physical verification of Afghan government payrolls and employees is performed by checking, for example, the presence of the employee; his or her grade, position, and identification card details; and any amounts paid to the employee.

²⁰ World Bank, "Appendix A Terms of Reference: Introduction," Contract No. 8005072, p.1.

roles [of government employees] are being delivered for the salaries paid.”^{21, 22} However, the Bank’s additional physical verification work has not adequately addressed those concerns. For example, USAID officials told us in July 2017 that their agency is not satisfied with the Monitoring Agent’s current level of monitoring and verification and that concerns remain about the risk of RCW funding reimbursing ghost employees, specifically teachers.

The World Bank has acknowledged that “the risk of undetected ghost workers [e.g., ghost teachers] increases when the Monitoring Agent is unable to undertake physical verification.” However, the Bank has also stated that the Monitoring Agent’s primary monitoring work on the RCW is to determine the eligibility of Afghan expenditures based on the government’s compliance with agreed-to fiduciary standards. The physical verification of Afghan teachers, for instance, is only to help “start” further in-depth analysis about their physical presence in the schools. Bank officials previously told USAID and us they are not concerned that RCW funding pays for ineligible expenses, such as ghost teacher salaries, because the funding does not reimburse specific, individual salaries. Rather, the World Bank uses the Monitoring Agent’s calculated eligibility rate to determine what percentage of the Afghan government’s submitted civilian expenditures the RCW will reimburse, and then pays the Afghan government that amount in a lump sum payment. Regardless, USAID officials told us in September 2017 that the World Bank cannot provide reasonable assurance that the RCW, which pays for approximately 40 percent of all Afghan government civilian expenditures, is reimbursing only proper government expenditures.

Furthermore, the Monitoring Agent’s physical verification work does not affect the calculated eligibility rate. The World Bank does not require the Monitoring Agent to perform physical verification for Afghan expenditures before they are deemed eligible and the eligibility rate determined. Consequently, the Monitoring Agent does not have to physically verify the existence of government salary recipients for the World Bank to approve allocating RCW funding to reimburse government employees’ salaries, including teacher salaries. A former World Bank Afghanistan Country Director told us that the biggest risk to RCW reimbursements is whether salary reimbursements are justified with the appropriate support and documentation.

Security concerns also limit the scope of the Monitoring Agent’s physical verification work. The World Bank states that security issues still prevent the Monitoring Agent from visiting certain locations to perform physical verification and sampling. For example, in 2016, the Monitoring Agent could not perform physical verification on 44 percent of the government employees it randomly selected for testing because the districts were located in inaccessible areas due to threats from the insurgency, ongoing conflict, local intelligence indicating potential threats, or were under Taliban control. USAID officials told us in September 2017 that the scope of the current physical verification work is not structured to support working in insecure areas. Therefore, without the Monitoring Agent enhancing the scope of its work to physically verify government employees and teachers in insecure areas, and the World Bank including physical verification work in the calculation of the eligibility rate, risks will remain that RCW funding reimburses expenditures for ghost employees.

In addition to the limitations in the Monitoring Agent’s monitoring, there was also a lapse in the Monitoring Agent’s oversight of the ARTF RCW from October 2011 to January 2012, during which the World Bank disbursed \$2.1 million to the Afghan government. Bank officials told us that this gap resulted from delays in the Bank awarding a new contract to a different company after the previous contract expired. They added that World Bank staff temporarily took over the Monitoring Agent’s monitoring duties during this time. However, this was problematic because the third-party monitor is intended to provide additional oversight above and beyond what Bank staff perform. Furthermore, the 2012 USAID ARTF Grant Agreement requires that the World Bank

²¹ Consistent with our prior work, we “interpret ghost employees in the narrow sense, as fictional employees created to draw a salary that will then be claimed by one or more complicit individuals. We consider neither real employees who are paid despite absenteeism or inactivity nor those impersonating a different individual to qualify as ghost workers.” See SIGAR, *Afghan National Police: More than \$300 Million in Annual, U.S.-funded Salary Payments Is Based on Partially Verified or Reconciled Data*, SIGAR 15-26-AR, January 7, 2015.

²² World Bank, *The Monitoring of Payroll by the ARTF Monitoring Agent (with a focus on Education)*, Letter to USAID, March 31, 2016.

provide external monitoring of the ARTF. Because the Bank did not continually provide the additional external monitoring, it did not fully meet the terms and conditions of its agreement with USAID.

The World Bank, in consultation with ARTF donors, reported in August 2017 that the development of the 2018 to 2020 ARTF financing strategy offers an opportunity to consider modifying the Monitoring Agent's physical verification work. These proposed modifications include incorporating the results of physical verification work into the calculated eligibility rate, which would provide greater assurance that the ARTF is not reimbursing ghost employee salaries. The modifications also include further increasing the Monitoring Agent's scope of work to better monitor areas where access is currently limited because of security issues by having the Monitoring Agent increase its security posture. This could be done by using armored vehicles, relying more on locally recruited staff who have better ability to move on the ground, or a combination of the two.

In December 2017, in response to a preliminary draft of this report, World Bank and USAID officials told us that by January 2018, the World Bank, the Afghan government, and ARTF donors planned to agree to specific proposals to enhance ARTF monitoring efforts, to include making improvements to the Monitoring Agent's physical verification work that will help mitigate the methodology and security concerns that have been identified. USAID officials told us that they are satisfied with the draft proposals and added that, if implemented, the proposals will help address USAID's concerns regarding the Monitoring Agent's current level of monitoring and verification, and the risks of RCW funding reimbursing salaries for ghost employees. In addition, World Bank officials changed their position on this risk and said they are now concerned about the risk of RCW funding reimbursing ineligible expenses and will have mechanisms to mitigate this risk, including the proposed improvements to ARTF monitoring efforts.

The World Bank Hired the Supervisory Agent to Oversee the Investment Window, but the Supervisory Agent Only Monitors Six Projects and Does Not Assess Their Performance

The World Bank has taken steps to enhance and improve the mechanisms it uses to monitor and account for IW funding since we issued our 2011 audit. In 2012, the World Bank hired another third-party monitor for the fund, the Supervisory Agent, to monitor and verify IW funding and the development projects it supports. The *2015 to 2018 Supervisory Agent Terms of Reference* states the objectives of the Supervisory Agent are to supplement the World Bank's support of IW projects, assist Afghan government counterparts responsible for implementing IW-funded projects with quality monitoring, and provide independent evidence of program implementation. The Supervisory Agent monitors 6 of the 25 active IW projects.²³ World Bank officials told us that the Bank chose these six projects because they are being implemented in areas where Bank staff do not have access or have only limited visibility. The Supervisory Agent's work includes conducting field visits to the six project sites to collect and assess data on the physical assets, design, and needs of the projects; assessing the quality and maintenance of construction; and ensuring projects comply with the World Bank's environmental and social safeguards. The scope of the Supervisory Agent's monitoring work has also increased since 2012 to identify issues with IW project activities deviating from their planned objectives, such as not using appropriate construction materials on infrastructure projects as planned, and to develop strategies to address these issues.

Although the World Bank has improved its monitoring and accounting of IW funding by using the Supervisory Agent, the Supervisory Agent's work faces limitations. The Supervisory Agent only monitors six IW projects which cost about \$2.09 billion, four of which are still active, but is not monitoring any of the 21 other active IW

²³ As we noted in table 1, the six projects are the (1) Education Quality Improvement Program, (2) Afghanistan Rural Access Program, (3) National Solidarity Program, (4) Irrigation Rehabilitation and Development Program, (5) On-Farm Water Management Program, and (6) Afghanistan Power System Development Project. World Bank officials told us in December 2017 that the Bank expanded the scope of the Supervisory Agent's work in late 2016 to include the Afghanistan Power System Development Project. However, this project was not cited in the documents publicly available on the World Bank's websites or in documentary evidence reporting on the other five projects.

projects, which cost \$1.45 billion.²⁴ In addition, the Supervisory Agent's responsibilities focus on whether the projects are being implemented and are in compliance with their respective World Bank and Afghan government project agreements. The Supervisory Agent is not responsible for evaluating project performance.

World Bank officials told us that the Supervisory Agent only monitors six projects because it sees the Supervisory Agent's role as being supplementary to the Bank's responsibilities for supervising IW funding as the ARTF administrator. However, the *2015 to 2018 Supervisory Agent Terms of Reference* states that the World Bank may be able to expand the Supervisory Agent's scope to monitor additional projects. In October 2017, the World Bank, in consultation with the Afghan government, told donors that it is open to expanding the Supervisory Agent's scope to include more projects. In December 2017, in response to a preliminary draft of this report, the Bank told us that there are now plans to include two more projects in the Supervisory Agent's scope of work: the Afghanistan Agriculture Inputs Project and the National Horticulture and Livestock Project. These plans have not been approved yet. It was unclear, as of the time we issued this report, whether the World Bank would request additional funding to support any increase in the Supervisory Agent's scope or work.

The World Bank and Donors Lack Information to Evaluate the Third-party Monitors' Performance

The World Bank's and donors' understanding of the Monitoring Agent's and Supervisory Agent's abilities to monitor and account for ARTF funding is limited because they lack important information for evaluating the third-party monitors' performance. The 2012 USAID ARTF Grant Agreement states that the Bank will "be responsible to supervise the performance" of the Monitoring Agent and the Supervisory Agent, but at the same time will "have no responsibility to Donors with respect to the performance" of the Monitoring Agent and the Supervisory Agent, and "will have no obligation to reimburse" the ARTF or donors as a result of the Monitoring Agent or Supervisory Agent's actions.²⁵ World Bank officials told us they are responsible for contracting and supervising both third-party monitors, and base their performance on the "quality and timeliness of their reporting." However, they stated that the Bank is not responsible for any performance issues that may arise with the Monitoring Agent or the Supervisory Agent.

The 2012 USAID ARTF Grant Agreement further states that the United States may request an external evaluation of the Monitoring Agent's and the Supervisory Agent's performance. However, Bank officials told us that neither the United States nor any other donor has requested an evaluation, and that the Bank has not produced any evaluations or assessments of the monitors' performance. Without any evaluations of the third-party monitors, the World Bank and donors are missing information important to help understand the monitors' performance and determine how to improve and better scope future ARTF third-party monitoring efforts.

The World Bank Limits Donor Access to Information on How It Monitors and Accounts for ARTF Funding

The World Bank Limits Access to Information on the Recurrent Cost Window

The World Bank limits donor and public access to information about the Monitoring Agent's monitoring work and findings regarding the RCW. One of the Monitoring Agent's roles is to keep the Afghan government and World Bank informed on emerging issues with the RCW. The Monitoring Agent Terms of Reference for Binder Dijker Otte International states that one of the Monitoring Agent's primary objectives is to report on the efficient and effective implementation of the ARTF RCW. The 2012 USAID ARTF Grant Agreement states that

²⁴ For example, the World Bank reported that the six projects do not include the largest ARTF-funded project—the System Enhancement for Health Action in Transition, which is intended to support basic health service delivery—because the project has its own third-party monitor.

²⁵ USAID, *USAID Contribution to the Afghanistan Reconstruction Trust Fund ("ARTF") No. TF050576, USAID Grant Agreement No. 306-G-00-12-00016-00; World Bank Letter Agreement No. EEE-G-00-02-00025-00*, March 31, 2012.

the Bank, upon request by the donor, will send the Monitoring Agent's "draft and final reports" that it receives reporting on the activities financed by the ARTF to the agency.²⁶

However, the World Bank has not shared some Monitoring Agent reports with USAID, per the grant agreement, or with other ARTF donors or the public. World Bank officials told us that the Bank cannot share the full, detailed Monitoring Agent reports due to the Bank's internal access to information policy which dictates what ARTF records it will share with donors and the public. For example, USAID has on a number of occasions requested and been denied access to the Monitoring Agent's monthly, quarterly, and annual monitoring reports, which include details of the RCW's implementation; information on the Monitoring Agent's sampling methodology (for example, the provinces visited and numbers of records verified) for determining the eligibility of government expenditures to receive ARTF reimbursement; trends and concerns with ineligible expenditures submitted; and the Monitoring Agent's communications with Afghan ministries. Even though donors fund the Monitoring Agent's work, the World Bank states that per its access to information policy, it does not provide ARTF donors or the public access to the Monitoring Agent's more detailed monthly, quarterly, or annual monitoring reports because they contain information the Bank considers to be "deliberative" and "restricted: confidential," such as Afghan government financial and budgetary records supporting RCW reimbursements.²⁷ Instead, World Bank officials stated that the Bank was sharing summaries of the Monitoring Agent's quarterly and annual monitoring reports with the donors.

The World Bank's internal policy and the officials' statement conflict with the 2012 USAID ARTF Grant Agreement that allows the United States, through USAID, to obtain copies of the Monitoring Agent reports upon request. Other major ARTF donors have also been critical of the World Bank's refusal to provide access to the Monitoring Agent reports. Representatives of one donor told us the Bank tends to not be transparent with ARTF details and often hides behind internal processes to justify denying access to information. Representatives of another donor told us the World Bank is inconsistent in determining what records can be shared and applies an unclear approach to what information may be accessible. Because the World Bank restricts access to some of the Monitoring Agent's work and reporting, donors do not have transparency into important, detailed information and findings about the efficiency and effectiveness of the RCW's implementation or the nature of the expenditures the funds are reimbursing.

In December 2017, in response to a preliminary draft of this report, World Bank and USAID officials told us that the Bank has now started sharing the full, detailed Monitoring Agent reports completed since 2017. In February 2018, the World Bank provided us copies of these reports.

The World Bank Is Not Transparent With Public Records

Although the World Bank has taken some steps since our 2011 audit to improve ARTF transparency, these steps have fallen short because the Bank is not following its own policy to provide donors and the public access to ARTF records that should be publicly available. One of the ARTF's main objectives is to promote transparency and accountability of Afghanistan reconstruction assistance. In November 2013, the World Bank reported that a primary goal of establishing new oversight mechanisms for the ARTF was to improve reporting on performance and results, and thereby strengthen overall transparency and accountability of the fund. World Bank officials told us that ARTF records and information not restricted by the Bank's access to information policy are publicly available. They added that it is the World Bank's policy to make public ARTF records available on the Bank's main and ARTF websites.

²⁶ *Id.*

²⁷ The policy states that, among other things, the World Bank does "not provide access to information whose disclosure could cause harm to specific parties or interests." This includes not sharing "information provided by member countries or third parties in confidence," such as member country financial information or "deliberative information," "information prepared during the course of deliberations with member countries or other entities with which the Bank cooperates," internal World Bank deliberations, and "analyses carried out to solely inform the Bank's internal decision-making processes." See The World Bank, *Policy: The World Bank Policy on Access to Information*, July 1, 2015.

Since our 2011 audit, the Bank has enhanced its public reporting on the ARTF. For example, the Bank now publicly publishes reports online on IW projects' performance and results, such as semi-annual project implementation status reports and project grant agreements. However, we found gaps in the World Bank's public reporting. For example, we found that a number of public records are not accessible online via the Bank's ARTF website, including 7 of 18 quarterly Steering Committee meeting minutes between 2011 and April 2017; 41 of 74 monthly Strategy Group meeting minutes from 2011 to April 2017; and documents describing the objectives, performance, and results of specific IW projects.

The Bank told us on multiple occasions that all public ARTF records are available on the World Bank's main and ARTF websites, but when we asked Bank officials to explain why the records we identified were not available, they did not provide an explanation. By not ensuring that ARTF donors and the public have access to information necessary for them to understand the activities, progress, and performance of ARTF projects they fund, the World Bank has reduced transparency into the fund.

Weaknesses in the Afghan Government's Fiduciary Controls Continue to Put ARTF Funding at Risk

Despite efforts to build the Afghan government's capacity to manage and account for ARTF funds since our 2011 report, we and others continue to have concerns about the Afghan government's ability to implement fiduciary controls over ARTF funding. The World Bank, as the fund's administrator, is responsible for ensuring that fiduciary controls are being applied to Afghan government expenditures and disbursement processes to safeguard against risks of misuse, waste, and misreporting of ARTF funding. As part of this role, the Afghan government agrees to perform its own controls on the ARTF. The ARTF Fiduciary Framework establishes requirements for the Afghan government to help monitor and account for the ARTF funding it receives through the use of internal controls and audits. For example, the government is required to meet agreed-upon ARTF procurement and financial management standards for spending government funds.

The Monitoring Agent's work monitoring RCW funding has raised concerns about the Afghan government's ability to comply with the fiduciary controls. Most concerning, the Monitoring Agent reports through its representative sampling that the eligibility rate of all Afghan government expenditures available for ARTF reimbursement continues to decline. The World Bank reports that the eligibility rate continues to decline due to a lack of government documentation to support cost expenditure transactions and improper application of Afghan procurement policies.

Despite this, World Bank officials responsible for overseeing RCW funding report that issues with the declining eligibility rates are not a direct risk to ARTF funding because there are still "enough" eligible expenditures available to reimburse with the amount of RCW funding allotted each year. Per the World Bank and Afghan government's ARTF grant agreement, the government must refund any ineligible ARTF expenditures to the fund or substitute ineligible expenses with another eligible expense. World Bank officials further noted that an ineligible expenditure "does not necessarily imply misuse or wrongdoing."²⁸ However, as a senior USAID official told us, this is also not reasonable assurance that misuse did not occur. As the Government Accountability Office reported in 2011, while ineligible expenditures are not reimbursed by the ARTF, the World Bank considers the level of ineligible expenditures to be an indicator of weaknesses in the Afghan government's ability to meet agreed-upon procurement and financial management standards.²⁹ This is also concerning because the Monitoring Agent is supposed to be building the Afghan's capacity to handle these internal controls. In December 2017, in response to a preliminary draft of this report, the World Bank acknowledged

²⁸ World Bank officials told us that expenses may be ineligible due to, for example, missing documentation. An expense may also be ineligible because it does not meet the ARTF reimbursement eligibility requirements, such as for military or police expenditures.

²⁹ U.S. Government Accountability Office, *Afghanistan: Actions Needed to Improve Accountability of U.S. Assistance to Afghanistan Government*, GAO-11-710, July 2011.

this concern and stated that, among other things, the Monitoring Agent is working with the Afghan government to set up an Ineligibility Working Group to address, resolve, and reduce ineligible expenditures.

We are also concerned that since our 2011 report, the SAO is still not able to fully perform its responsibilities for auditing the Afghan government's records and accounts of ARTF expenditures. The SAO still faces capacity restraints in performing audits. Through implementation of the Public Financial Management Reform II Project, the ARTF IW funds an international audit firm to provide technical assistance and support to the SAO's annual audits and improve Afghan government employees' auditing capabilities. World Bank documents reporting on the Public Financial Management Reform II Project's performance since 2012 state the reasons for the SAO's capacity constraints include a lack of qualified Afghan accountants, a lack of staff understanding how to perform financial statement audits, and the SAO not fully complying with international auditing standards. Furthermore, for the issues SAO does raise through its audits of Afghan ARTF expenditures, a May 2017 World Bank report states that the Afghan government places "little" accountability on its public entities to address SAO's recommendations.³⁰

Because the Afghan government is unable to perform its oversight of the ARTF fully, ARTF stakeholders are missing a key level of fiduciary oversight on the fund, and issues related to any excess or erroneous ARTF payments identified cannot be adequately addressed or resolved. These concerns and the decreasing rate of Afghan expenses eligible for ARTF reimbursement put current and future ARTF funding at risk of being improperly spent.

WITHOUT CRITICAL DOCUMENTS AND INDICATORS, THE WORLD BANK IS NOT FULLY MEASURING THE PERFORMANCE OF ARTF INVESTMENT PROJECTS WORTH \$2.25 BILLION

We found several instances where the World Bank is not measuring and reporting on the performance of development projects funded by the ARTF IW. In January 2017, we selected 6 of the 51 completed and ongoing projects for a detailed review. As of December 2017, these 6 projects accounted for more than \$2.25 billion of the \$4.13 billion spent on all of the projects and covered all five ARTF development sectors.³¹ However, due to a lack of transparency and records, as reported above, and incomplete performance indicators, we could not fully assess the extent to which the World Bank is measuring ARTF performance and determining whether ARTF is meeting its objectives. Moreover, although the World Bank has established a process to measure the ARTF's overall performance at a development sector level annually, we found that several issues prevent the Bank from actually carrying out this process.

³⁰ World Bank, *Afghanistan Reconstruction Trust Fund: Incentive Program 2015-2017 Administrator's Fourth Technical Review*, May 27, 2017.

³¹ When we created our sample of IW projects to review in January 2017, the World Bank's public records provided evidence that there were five ARTF development sectors and 51 completed and ongoing IW-funded projects. Since that time, the World Bank has provided updated information on the number of ARTF development sectors and completed and ongoing projects. As of November 2017, the website reported six sectors, disaggregating the previously combined governance and public sector capacity sectors. The current list of sectors and the number of completed and ongoing projects are reported on page 2 of this report.

Table 2 - IW Projects SIGAR Sampled

Project Name	Objective	Grant Amount (\$ millions) as of December 2017	Period of Performance as of December 2017
Afghanistan Agriculture Inputs Project	To strengthen institutional capacity for safety and reliability of agricultural inputs and sustainable production of certified wheat seed.	\$67.25	6/2013-6/2018
Education Quality Improvement Program II	To increase equitable access to quality basic education, especially for girls, through school grants, teacher training, and strengthened institutional capacity with support from communities and private providers.	408	4/2009-12/2017
Kabul Municipal Development Program	To increase access to basic municipal services in selected residential areas of Kabul city, to redesign Kabul Municipal's Financial Management system to support better service delivery, and to enable early response in the event of an eligible emergency.	110	4/2014-12/2019
Public Financial Management Reform Project II	To strengthen public financial management through effective procurement, treasury, and audit structure and systems in line with sound financial management standards of monitoring, reporting, and control.	114.07	8/2011-12/2017
National Solidarity Program II	To lay the foundations for a strengthening of community-level governance, and to support community-managed sub-projects comprising reconstruction and development that improve access of rural communities to social and productive infrastructure and services.	447.9	5/2007-9/2011
National Solidarity Program III	To build, strengthen, and maintain community development councils as effective institutions for local governance and social-economic development.	1,107.26	1/2011-3/2017
Project Total		\$2,254.53	

Source: SIGAR analysis of World Bank data.

Note: We report project information and financial figures the World Bank provided us but note inconsistencies compared with the data reported publicly on the World Bank's websites.

The World Bank Lacks Systems to Measure Performance and Cannot Determine the Extent to Which Six Major ARTF Projects Worth \$2.25 Billion Met or Are Meeting Their Objectives

We found several instances where the World Bank is not measuring and reporting on the performance of ARTF development projects because it did not (1) develop performance indicators in accordance with its own guidance, (2) consistently provide specific quantitative or qualitative status information for performance indicators, or (3) provide clear support or justification for the performance and progress ratings it gave projects. The World Bank has guidance for measuring and reporting on the performance of ARTF development projects. For example, the *World Bank's Guidance on Preparing the Project Appraisal Document* states that project performance indicators should be specific, measurable, attributable, realistic, relevant, time-bound

("SMART")...and, should include performance baselines and targets.³² In addition, the *World Bank Guidelines for Implementation Completion and Results Reports* states that reporting on each performance indicator should include the "quantitative value(s) or qualitative status actually achieved and the corresponding date(s)."³³ Furthermore, the *World Bank's Operations Policy and Country Services (OPCS) Implementation Completion and Results Report Guidelines* establishes six performance ratings for Bank staff to use to measure project progress in the implementation status and results reports (ISRs) from "Highly Satisfactory" to "Highly Unsatisfactory," as described below:³⁴

- "Highly Satisfactory" indicates that there were no shortcomings in the achievement of its objectives, in its efficiency, or in its relevance.
- "Satisfactory" indicates that there were minor shortcomings.
- "Moderately Satisfactory" indicates that there were moderate shortcomings.
- "Moderately Unsatisfactory" indicates that there were significant shortcomings in the operation.
- "Unsatisfactory" indicates that there were major shortcomings.
- "Highly Unsatisfactory" indicates that there were severe shortcomings.

Each rating is subject to the World Bank evaluator's judgement. In addition, "the outcome rating should be consistent with the detailed achievements against key quantitative and qualitative performance indicators" and includes the possibility of entering "not-rated" during "extraordinary circumstances," including war and insecurity.³⁵

We found that for five of the six IW projects we reviewed, the World Bank did not develop performance indicators in accordance with its guidance, including indicators that measure both project outputs and outcomes. For example, for the Kabul Municipal Development Program, we found that in December 2015, 1 and a half years into project implementation, 5 of 5 output indicators in the ISR were missing either baselines or targets. In another instance, in April 2014, 4 years into project implementation, the ISR for the National Solidarity Program III was still missing performance targets for 13 of 31 output indicators.

In December 2017, in response to a preliminary draft of this report, the World Bank stated that the reason the Kabul Municipal Development Program was missing baselines and targets for the noted indicators was because they could not "be known" until after implementation started and after field surveys were done to, for example, estimate the amount of roads and drains that needed to be upgraded. Similarly, the World Bank explained that the reason the noted National Solidarity Program III indicators were missing targets was because it was not "possible to predict" targets, such as the number of roads or classrooms that needed to be built, until after the project started. However, this supports our finding that World Bank did not meet its own guidance that indicators should be specific, measurable, attributable, realistic, relevant, time-bound, and should include performance baselines and targets. Furthermore, it raises the question why the World Bank would develop indicators that it apparently knew it could not properly or fully measure from the project's

³² World Bank guidance notes that the performance indicators developed as part of the Project Appraisal Document are then linked to reporting in the project ISRs. See World Bank, *Investment Project Financing – Preparing the Project Appraisal Document (PAD)*, April 9, 2013, pp. 5-9.

³³ The World Bank measures two types of performance indicators, "project development objective" indicators that measure outcomes linked to the project's objectives and "intermediate results" indicators that measure outputs, or "intermediate results to track progress towards achieving outcomes." For the purposes of our report, we refer to both types as "indicators" unless otherwise noted. See World Bank, *Implementation Completion and Results Report Guidelines*, Oct. 5, 2011, pp. 19-20; and World Bank, "Investment Project Financing – Preparing the Project Appraisal Document (PAD)," April 9, 2013, pp.5- 9.

³⁴ World Bank, *Operations Policy and Country Services (OPCS) Implementation Completion and Results Report Guidelines*, August 1, 2014, pp. 40–43.

³⁵ *Id.*

inception. Without baselines, the Bank lacks the basis from which to measure change in performance, and without performance targets, it is not clear what the project should be achieving with each indicator.

In addition to not consistently developing baselines and performance indicators, the World Bank in some instances failed to provide specific quantitative values or qualitative status information for performance indicators across the six projects. For example, in the June 2016 Public Financial Management Reform Project II's ISR, completed 5 years into implementation, World Bank staff did not report current information for 18 of 19 performance indicators. Similarly, in the January 2016 Education Quality Improvement Program II ISR, completed almost 8 years into implementation, World Bank staff did not report current information for 21 of the 46 indicators. World Bank staff did not provide explanations in the ISRs for why they did not provide current performance information for indicators.

In December 2017, in response to a preliminary draft of this report, the World Bank explained that some of the Education Quality Improvement Program II indicators did not have current information because the Bank relied on Afghan data that was not yet available and that two indicators were new and should have had a "0" value for actual current progress. The World Bank still did not have an explanation for the Public Financial Management Reform Project II indicators. Without current project status information, neither the World Bank nor donors can accurately monitor the projects' progress.

The World Bank also did not provide clear support or justification for the progress ratings it gave the six IW projects. For example, in the December 2015 Afghanistan Agriculture Inputs Project ISR, about 2 and a half years into implementation, World Bank evaluators gave the project a "Moderately Satisfactory" rating for overall implementation progress. However, this rating is not clearly justified and supported because the evaluators also reported that the project had not made any progress on 16 of 23 indicators, nearly 70 percent of all the immediate and intermediate indicators. Given the absence of further narrative or explanation in the ISRs, it is unreasonable for the Bank to classify a project that has failed to make progress on over two thirds of its performance indicators as merely facing "moderate" shortcomings, as the rating is defined in the *World Bank's Independent Evaluation Group's Implementation Completion and Results Review Evaluator Manual*.

In December 2017, in response to a preliminary draft of this report, the World Bank told us that the rating for the Afghanistan Agriculture Inputs Project in the ISR was not directly linked to the indicators performance information, but rather sometimes was based on "other contributing factors." This is concerning because the World Bank did not follow its own guidance for how to determine ratings, and officials seem to have instead relied on unexplained and undefined factors when making their determination.

In another example, in the first Kabul Municipal Development Program ISR completed in June 2014, about 2 months into implementation, World Bank evaluators gave the project a "Satisfactory" rating in overall implementation progress. However, this rating is not justified or supported because the ISR did not have any indicators with baselines and targets from which to start measuring the program's progress. In December 2017, the World Bank stated that because the project back in June 2014 was only 2 months into implementation, there was no reason to justify unsatisfactory performance. However, this is concerning because the Bank also reported that the ISR only had partial information to justify the rating. Moreover, if the period of performance to date was too short to determine whether progress was "Unsatisfactory," then it was unreasonable for the Bank to conclude that it somehow had sufficient information to justify whether the progress was "Satisfactory."

In another example, in the June 2013 Public Financial Management Reform II project, World Bank evaluators rated the project "moderately satisfactory." However, this rating is not justified or supported because they also report that the project closing date had to be extended because two activities were 18 months behind schedule. The evaluators also questioned the project's viability and advised either further restructuring the project or extending it. Three years later, in June 2016, the project was again rated "Moderately Satisfactory" even though the project was both restructured and extended. Without further narrative and explanation in the ISRs, it is unclear how several project changes and extensions support that the program only had moderate shortcomings.

In addition to the inconsistencies we observed with respect to the evaluation of individual projects, a 2016 World Bank report on measuring and evaluating performance reports even acknowledged that “staff are more likely to rely on tacit knowledge than on written information from the self-evaluation systems.” The report also stated that “ISR ratings and indicators are not always precise because of weak project monitoring and optimistic reporting,” and that there is a “candor gap” between project ratings at the ISR level versus the implementation completion and results report level, the former being influenced by factors such as “excessive optimism.”³⁶

Although the World Bank did provide explanations in December 2017 for some of the issues we raised with regard to specific projects, despite our request, the Bank did not provide an explanation for why it did not follow and implement its own performance management guidance. The World Bank’s inconsistent implementation of performance management standards and guidance appears to be a recurring problem. The Bank’s internal evaluators, an external evaluator (Scanteam), and other donors have previously reported on these same issues.³⁷ For example, the 2016 World Bank report also noted that “Self-evaluation and reporting requirements for trust funds...have been established but are not consistently enforced by the Bank.”³⁸ This raises concerns about the credibility and effectiveness of the World Bank’s project performance reporting. Moreover, these issues prevent the World Bank, and therefore ARTF donors, from being able to fully and accurately assess the performance of, at a minimum, the approximately \$2.25 billion in donor funding spent on the six projects we assessed.

SIGAR Could Not Fully Assess the Extent to Which the World Bank Measures and Reports on the Performance of Six Major ARTF Projects Because the Bank Limits Transparency on Records

We could not fully assess the extent to which the World Bank is measuring and reporting on performance across the six projects due to a lack of transparency in public records, as discussed earlier, and the World Bank’s restrictions on access to information regarding the Supervisory Agent’s monitoring work and findings on the IW.

World Bank officials told us it is the Bank’s policy to make publicly available ARTF performance information and reporting available on the internet, including ARTF IW project grant agreements, project appraisal documents, results frameworks, and ISRs. An ARTF IW project grant agreement establishes the project’s “scope, objectives, and the contractual rights and obligations of the Bank and the Borrower [Afghan government]...The obligations include the requirement to ... maintain appropriate implementation monitoring and evaluation arrangements, ...[and] measure and report against the achievement of the project’s development objectives and results.”³⁹

A results framework is intended “to assist the borrower and Bank during implementation, and for assessment of an operation’s [project’s] outcome and contribution to higher-level goals.”⁴⁰ The framework focuses on the project objectives “to be achieved and indicators demonstrating progress” toward the objectives, and also helps “to identify any changes that may be necessary in the operation [project] during implementation.”⁴¹ An ISR report provides periodic performance reporting on a given project every 6 months and contains a narrative,

³⁶ World Bank Independent Evaluation Group, *Behind the Mirror: A Report on the Self-Evaluation Systems of the World Bank Group*, 2016, pp. xii-xiii, 46.

³⁷ Scanteam is a Norwegian partner-owned advisory and consulting group. Scanteam has performed external evaluations of the ARTF for the World Bank.

³⁸ World Bank Independent Evaluation Group, *Behind the Mirror: A Report on the Self-Evaluation Systems of the World Bank Group*, 2016, pp. xii-xiii, 46. This statement applies to all World Bank trust funds and is not specific to the ARTF.

³⁹ World Bank, *The World Bank Operations Manual: Operational Policies: OP.10*, July 2014, p.6.

⁴⁰ World Bank, *Implementation Completion and Results Report Guidelines*, Oct. 5, 2011, p. 18.

⁴¹ *Id.*

a report on outcome indicators, and a rating on progress of the project. An ISR is one of the World Bank's "primary, mandatory self-evaluation systems."⁴²

The World Bank refers donors and the public to its ARTF website to access this information. However, many performance records for the six projects were not available. For example,

- The grant agreement was not publicly available for two of the six projects.
- A results framework was not publicly available for four of the six projects.
- Nine of an estimated 69 ISRs that the World Bank should have completed for the six projects were not publicly available.

We conducted our analysis of the six projects from January 2017 to September 2017. During this time, World Bank officials told us in response to multiple requests for information that we could only have access to IW project performance records that were publicly available. In October 2017, after we had completed our analysis and identified to the World Bank the records that were not publicly available on the Bank's main and ARTF websites, officials provided us most of the missing records, except one ISR, and made them publicly available, except for the Public Financial Management Reform Project II grant agreement. Moreover, the World Bank responded that the six ISRs for the National Solidarity Program II published before July 1, 2010, are considered "deliberative information" and, pursuant to the access to information policy, are not publicly accessible.⁴³

The World Bank, citing this policy, also restricted our access to records detailing some of the Supervisory Agent's methodologies for collecting monitoring information and blank versions of field monitoring "checklists" that illustrate the types of data the Supervisory Agent should collect on IW projects. World Bank officials told us these records were "deliberative information" and therefore not available. As a result, we could not fully assess the extent to which the Supervisory Agent monitors IW projects.

By restricting access to documents on IW-funded projects, ARTF donors and the public did not have full access to key performance information needed to understand whether adequate progress and achievements are being made on ARTF development projects. Furthermore, it appears that the World Bank only became aware that these records, which should have been public, were not accessible after we informed officials that they were missing. This reinforces our concern about the World Bank shortcomings in its administration and transparency with public records.

The World Bank Cannot Accurately Measure ARTF Performance Overall or at the Sector Level

Since our 2011 audit, the World Bank has taken steps intended to improve its ability to evaluate the ARTF's overall performance. In September 2013, the World Bank started producing an annual "ARTF Scorecard" to provide information on the ARTF's overall performance and results achieved.⁴⁴ The World Bank uses the Scorecard to produce analysis and report performance and results achieved, including performance and results at the ARTF development sector level, such as agriculture, rural development, and infrastructure. The World Bank needs accurate project-level information to be able to accurately assess the overall performance of the ARTF portfolio in the Scorecard. The Scorecard claims that the performance information and results used in the report are "directly attributable to projects/programs financed under the ARTF," such as information

⁴² World Bank Independent Evaluation Group, *Behind the Mirror: A Report on the Self-Evaluation Systems of the World Bank Group*, 2016, p. 32.

⁴³ World Bank, *Policy: The World Bank Policy on Access to Information*, July 1, 2015, p.12.

⁴⁴ World Bank, *The Afghanistan Reconstruction Trust Fund Guidance Notes Series: ARTF Results Reporting*, March 5, 2017, p. 1.

from the performance indicators captured in the IW and RCW projects' semi-annual ARTF ISRs.⁴⁵ The Scorecard is also supposed to aggregate ARTF progress across the ARTF portfolio using key sector-level performance indicators that measure outputs and outcomes.

However, we found several issues that preclude the World Bank from accurately evaluating overall ARTF efforts through the Scorecard. For example, the problems with the Bank not effectively and accurately measuring the six individual IW projects directly that we discussed earlier impact the quality or usefulness of the Scorecard. The projects' performance information and periodic reporting feed into the broader, aggregate reporting at the sector level in the Scorecard. In addition, we found deficiencies with the Bank's ability to measure the performance of the RCW through the semi-annual ISRs. For example, we found multiple examples of World Bank evaluators reporting on the activities the Monitoring Agent conducted rather than on the extent to which the RCW was actually meeting its performance objectives, such as the Afghan government's progress towards improving fiduciary internal controls over government expenses and better assuring the World Bank that goods and services it procures with ARTF funding are authorized. These ISRs also feed into the broader, aggregate reporting in the Scorecard. Therefore, the problems with data and the lack of performance information at the project-level ISRs result in problems at the aggregate, overall ARTF sector level reported in the Scorecard.

We also found that the World Bank did not provide complete or current information in the 2015 and 2016 Scorecards for sector-level performance indicators designed to measure and report sector progress. These findings were consistent with the findings of a 2015 review of the Scorecard performed by the United Kingdom's Department for International Development.⁴⁶ For example, we found in the 2016 Scorecard the World Bank lacked specific target values for 11 of 44 indicators. In December 2017, after we completed our fieldwork, the World Bank told us that it was technically "impossible" to establish targets for these indicators based on their activities. It is concerning that the World Bank developed and then claimed that it would use indicators it determined would be impossible to measure, which appears to violate its own guidance on performance measurement. Furthermore, without measureable performance targets, it is not clear what the project should ultimately achieve for each performance indicator. In addition, in the same 2016 Scorecard, the Bank used outdated information from 2011 as the most recent data to report on progress at the country level for indicators of poverty, inequality, and food security. Without current status information, neither the World Bank nor donors can accurately measure sector-level progress.

Problems with measuring and evaluating performance at the project level, through the IW and RCW ISRs, therefore provided inaccurate and questionable data for the World Bank to use in conducting the Scorecard performance analysis at the ARTF sector level. It is unclear why World Bank evaluators did not measure and report on ARTF sector-level performance indicators as required. We asked World Bank officials for an explanation but they did not provide one. Without an accurate, reliable evaluation critical to understanding ARTF's sector-level and overall performance and progress, the World Bank will be unable to determine the impact that about \$10 billion in donor funding has had on Afghanistan's development.

Donors Face Challenges Holding the Afghan Government Accountable for ARTF Implementation, but USAID Plans to Address Some of Them

The World Bank and Donors Lack Tools to Address Poor ARTF Performance

As a recipient-executed trust fund and the largest source of on-budget, direct assistance to Afghanistan, the ARTF is structured to enable the Afghan government, as the recipient, to have flexibility in how it uses donor funding to carry out development activities and finance the government's recurring needs. However, this

⁴⁵ *Id.*

⁴⁶ United Kingdom's Department for International Development, *Annual Review Summary Sheet: Support to the Afghanistan Reconstruction Trust Fund*, 2015.

flexibility results in three challenges that prevent the World Bank and donors from addressing any poorly performing ARTF projects the Afghan government implements. Specifically, the World Bank and donors lack the ability to adjust the scope of ongoing projects without the Afghan government's agreement, to withhold funding from the ARTF altogether or recover ARTF money based on ARTF performance, and to use or enforce conditionality on ARTF funds.⁴⁷

ARTF donors cannot adjust any ongoing poorly performing projects they fund without the Afghan government's agreement. As the fund is structured, the World Bank states that only the Afghan government—the ARTF recipient and beneficiary—has the ability to decide when and what projects to scale back, discontinue, or redesign. For example, the World Bank, through its efforts to measure IW projects' performance, may identify a project as a poor performer, but without the Afghan government's agreement to adjust the project, the World Bank and donors will continue to fund the project. Furthermore, the ARTF's structure has no mechanism for the World Bank or donors to withhold ARTF funding altogether or recover money from the Afghan government based on a project's performance or the Afghan government's implementation of a project once donors have paid into the fund or after the World Bank disburses the funds to the government. For example, the Bank and donors do not withhold funding from the ARTF altogether or recover money from the Afghan government as a result of concerns about poor project implementation or lack of progress.⁴⁸ A senior aide to Afghanistan's President told us that the structure of the ARTF allows for ill-conceived projects to be funded because there is no repayment obligation and that dysfunctional projects are nearly impossible to eliminate. He also said that there is political pressure to spend ARTF funds, even if the programs and projects being funded are ill-conceived or unneeded, or risk losing future funding.

However, there are limited instances where the World Bank can recover funds if the government does not meet the terms of its ARTF agreement with the Bank and can unilaterally cancel a project if an illegal act has been committed.⁴⁹ In addition, the Bank can withhold ARTF funding from particular projects and activities. For example, the Bank can withhold funding disbursed through the RCW's Incentive Program if the Afghan government is not meeting specific program incentive benchmarks. However, any funding the Bank withholds from particular projects or activities is then put back in the broader ARTF account to be spent elsewhere. In other words, the funding is not withheld from the Afghan government altogether, it is reapportioned to other ARTF projects or costs. Although donors cannot withhold or recover funds once they are paid into the ARTF, USAID could terminate future United States involvement in the ARTF if it determines that the grant agreement is no longer effective or being appropriately carried out.

In addition, in June 2017, World Bank officials told us that the World Bank and donors do not use or enforce conditionality on ARTF funding—that is, they said, linking the disbursement of ARTF funds to the Afghan government meeting certain defined conditions established as “legal covenants” in ARTF grant agreements. In other words, the World Bank does not withhold ARTF funding from the Afghan government if it does not meet specific agreed-upon conditions.⁵⁰ A 2005 World Bank report states that the rationale for conditionality is the lender's “due diligence obligation to ensure that its resources are used effectively and responsibly” by the recipient. More specifically, the report notes that conditionality may be used for two important reasons: (1) to

⁴⁷ As SIGAR has previously reported, the Organization for Economic Cooperation and Development notes, “Aid conditionality does not have a universally agreed definition and covers a spectrum of different types of engagements.” OECD, *Summary Note on Conditionality*, Prepared for the Working Party on Aid Effectiveness—Task Team on Conditionality, 4th High Level Forum on Aid Effectiveness, Busan, Korea, 10/2011, p. 4. See below for further context on World Bank's use and terminology of conditionality.

⁴⁸ Per the 2012 USAID ARTF Grant Agreement, either USAID or the World Bank can terminate the entire agreement if either party determines that the agreement “can no longer be effectively or appropriately carried out.”

⁴⁹ A July 2016 World Bank report notes that the “only circumstance in which the Bank can unilaterally suspend a project is when legal covenants (e.g., legally agreed to implementation modalities) are contravened.”

⁵⁰ The World Bank may include terms and conditions in its individual ARTF project grant agreements with the Afghan government whereby the Afghan government has to perform certain actions. However, this is not broad conditionality on ARTF funding.

ensure that the assistance provided contributes to the country's development objectives, called the "development effectiveness rationale," and (2) to ensure that the resources are used for the purposes intended, called the "fiduciary rationale".⁵¹ Another 2005 World Bank report states that World Bank conditionality on funding can mean funding is only available "ex ante," which involves an agreement to complete actions prior to receiving money, or "ex post," which involves an agreement to complete actions after receiving money. The report further states that with conditionality, "if the spirit of this program is not followed," the program funder's responses "may range from a delay of subsequent operations to reductions in overall amounts and complete withdrawal of financial support."⁵²

World Bank officials told us that the ARTF does not use conditionality or other mechanisms that would restrict disbursement of ARTF funding in general because this would go against the ARTF's priority to pursue all opportunities for spending available funding on the Afghan government. While the ARTF Incentive Program places conditions on the Afghan government meeting reform benchmarks to receive some funding, the Afghan government does not need to fully meet these benchmarks to receive some of the money.⁵³ In other words, the World Bank may still be able to provide the Afghan government some Incentive Program money even if the government only partially meets benchmarks. In October 2017, a senior World Bank official overseeing the ARTF acknowledged this difference versus using "conditionality" to hold funding until all conditions are met.

In December 2017, in response to a preliminary draft of this report, the World Bank stated that once donors provide funding to the ARTF, there needs to be a "level of predictability" in the flow of funds to the Afghan government to allow for effective development planning, regardless of the quality of ARTF performance. Bank officials again acknowledged that the World Bank does not use or enforce conditionality on ARTF funding in terms of only providing the Afghan government ARTF funding if it meets established ARTF conditions. As we report above, the Bank does have the ability to restrict the availability and disbursement of ARTF funding to particular projects and activities based on performance. However, as World Bank officials acknowledged, the ARTF funding donors make available will be spent somewhere regardless of individual project progress or overall ARTF performance.

USAID Says It Is Taking Steps to Hold the Afghan Government More Accountable for ARTF Funds

We observed that USAID plans to address two of the three challenges we identified, specifically the inability to withhold or recover ARTF funding, and not using or enforcing conditionality on the fund. USAID officials acknowledged that USAID cannot withhold or recover ARTF funding already paid into the ARTF due to concerns with the performance and oversight of the fund, and said the agency does not consider withholding or recovering funding as options. The USAID officials added that taking these actions could be "extremely problematic" and cause a chain reaction among donors that could result in a sudden decrease in ARTF funding, which would create a significant fiscal gap in the Afghan government's budget. However, USAID officials told us that the agency does intend to hold the World Bank and Afghan government more accountable for ARTF performance and transparency by making it clear that the agency will reduce future 2018 contributions to the fund if the Bank and Afghan government do not take concrete steps to implement reforms. These reforms would include addressing the challenges to monitoring ARTF performance and improving transparency, as we discussed above. In December 2017, in response to a preliminary draft of this report, USAID officials told us that the proposals to improve ARTF monitoring, if implemented, should address these

⁵¹ World Bank, *Review of World Bank Conditionality*, September 2005, p.59.

⁵² World Bank, *Good Practice Note for Development Policy Lending: Development Policy Operations and Program Conditionality in Fragile States*, June 2005, p. 10.

⁵³ The World Bank makes a distinction between benchmarks and conditions. The 2005 World Bank report states that benchmarks are frequently used to describe small steps in a reform process that represent significant, though not necessarily critical, progress markers for the implementation of a program. Benchmarks are not determinative of disbursements of a loan or grant and are not intended to become prior actions for future support.

challenges. As of February 2018, we had not received an official version of these proposals and therefore could not confirm what the specific proposals are or when they will be implemented.

In addition, although the ARTF does not enforce conditionality, a senior USAID official told us that USAID has proposed plans to strengthen oversight of the ARTF and help improve its implementation. One approach USAID favors to improve implementation is to make donor contributions more effective through donor funding preferences. In September 2017, USAID expressed to the World Bank and other donors the need to build additional flexibility into how donors can preference the funding they provide the ARTF to better direct funding to impactful, beneficial areas. For example, USAID and other donors are concerned that ARTF funding is supporting development efforts in Taliban and other insurgent-controlled areas, something the Supervisory Agent has acknowledged in its monitoring reports. To address this concern—and comply with requirements of section 7044 of the 2017 Consolidated Appropriations Act—USAID told us in September 2017 that the agency requested that the World Bank allow donors to preference ARTF funding by geographic location to divert money and development support away from areas known to be under the control of the Taliban or other insurgent and extremist organizations.⁵⁴ However, in December 2017, following the completion of our fieldwork, USAID officials told us they are no longer pursuing the ability for donors to preference ARTF funding by geographic location. Despite our request, the officials did not explain why USAID’s position changed.⁵⁵

In another approach, USAID is working with donors, the World Bank, and the Afghan government to have the ARTF’s 2018 to 2020 Financing Strategy focus on increasing incentive-based and results-based investments to reward Afghan government performance. For example, one proposal is to zero out annual RCW baseline funding, which reimburses the Afghan government for recurring, non-security-related expenses, by 2018 and shift those funds to the Incentive Program.

CONCLUSION

The U.S. government, represented by USAID, is the largest contributor to the multi-donor ARTF, having contributed about \$3 billion of the total \$10 billion in direct assistance to the Afghan government’s annual operating costs and development projects since 2002. The World Bank, in its role as ARTF administrator, is tasked with providing fiscal oversight on ARTF funding and with monitoring and evaluating ARTF implementation, with a goal of helping the international community improve the overall effectiveness of the reconstruction effort in Afghanistan.

However, although the World Bank has attempted to improve its monitoring and accounting of the ARTF since our 2011 audit report, the Bank still faces limitations in its physical verification of government employees, whose salaries ARTF reimburses, and in producing and sharing with donors and the public performance evaluations of the third-party monitors’ work. These limitations prevent the Bank from better understanding where it can make further improvements in monitoring. The World Bank also restricts transparency and donor access to information on how the Bank monitors and accounts for ARTF funding. Furthermore, the Afghan government is not meeting its responsibilities to account for how it uses ARTF funding and to safeguard the funds from risks of misuse, waste, and fraud. As a result, donors, including USAID and U.S. taxpayers, will continue to provide billions of dollars to the ARTF without adequate assurance that the money being spent is

⁵⁴ Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, Division J, § 7044. The Act states that USAID is required to identify safeguards to ensure that the agency’s funding for Afghanistan, such as the ARTF, are not “supporting projects in areas under the control of the Taliban or other extremist organizations...[and] do not further the legitimacy of such organizations.”

⁵⁵ In April 2018, in response to a draft of our report, USAID told us that it is satisfied that the World Bank’s proposed changes to improve monitoring “will deliver adequate supervision of funds to ensure no funds are used to legitimize insurgents.” USAID further stated that given the scope of the ARTF, “(i) there is no way it can avoid working in contested areas (i.e., health services, schools in all provinces); and (ii) arguments exist that provision of essential services (i.e., healthcare and primary education) actually legitimizes the GoA [Government of Afghanistan] as opposed to the insurgents.”

actually contributing support to the ongoing operation of the Afghan government, addressing fiscal gaps in Afghanistan's national budget, and furthering the international community's overall reconstruction efforts.

While we understand that the World Bank faces difficulties and obstacles in measuring ARTF performance in Afghanistan because of security and mobility challenges that restrict its work outside of Kabul, the World Bank continues to employ performance measurement processes that are not transparent and that do not accurately measure ARTF progress and results. The World Bank's lack of transparency limits donors' and the public's knowledge about ARTF progress and results reported. Because the Bank does not adhere to its own performance measurement guidance and has not addressed known measurement and reporting deficiencies and limitations, there is the substantial risk that U.S. taxpayers will continue to provide funds for the ARTF without adequate safeguards for ensuring that those funds will actually contribute to the reconstruction and stabilization of Afghanistan.

ARTF donors face challenges in holding the Afghan government accountable for ARTF implementation and addressing poorly performing projects because the ARTF structure lacks mechanisms to adjust the scope of ongoing projects, to withhold or recover ARTF funding paid into the fund, and to use or enforce conditionality. USAID has expressed an intention to continue working with the World Bank and other donors to address some of the Bank's monitoring and transparency challenges, as indicated by recently drafted proposals to increase the monitoring of the RCW, and the Bank's decision to share previously restricted third-party monitor reports. However, after 15 years and \$3 billion in U.S. contributions to the ARTF, if the U.S. government continues to fund the ARTF without the World Bank addressing the monitoring and transparency challenges, implementing the new monitoring proposals, and better determining results and impact, USAID will be hard-pressed to explain the purpose and logic for supporting the extension of the ARTF through 2025.

RECOMMENDATIONS

To improve overall World Bank monitoring and accounting of ARTF funding, SIGAR recommends that the USAID Administrator, as the U.S. government's ARTF representative, work with the World Bank to:

1. **Expand the scope of the Monitoring Agent's physical verification of Afghan government employees' salaries to include methods for performing verifications in insecure areas, and require the Monitoring Agent to use the verification results when calculating the eligibility rate.**
2. **Plan and implement specific steps to improve donor access to information regarding how ARTF funds are managed, including addressing gaps in public records available online, and providing the donors access to the full, complete Monitoring Agent reports.**
3. **Incorporate a requirement in the U.S. ARTF grant agreement that the World Bank periodically conduct and share performance evaluations of the Monitoring Agent and Supervisory Agent with donors and the public.**

To strengthen ongoing and future measuring and assessing of ARTF development project- and sector-level performance, SIGAR recommends that the USAID Administrator, in consultation with other ARTF donors:

4. **Work with the World Bank to ensure that the Bank fully adheres to and implements its own existing performance measurement guidance when measuring the performance of the ARTF and its development projects.**

To help donors address challenges facing the effective implementation of ARTF funding, SIGAR recommends that the USAID Administrator, in consultation with other ARTF donors and the World Bank, consider making the following changes to the operation of the ARTF:

5. **Allow donors to (a) cancel or adjust the scope of projects that are failing, in danger of failing, or that do not otherwise meet desired program objectives; (b) withhold or recover money from the Afghan**

government based on a project's performance or the Afghan government's implementation of the project; and (c) incorporate conditionality mechanisms into the ARTF funding scheme by linking funding to specific agreed upon conditions.

AGENCY COMMENTS

We provided a draft of this report to USAID and the World Bank for review and comment. We received written comments from USAID's Office of Afghanistan and Pakistan Affairs, and the World Bank's Afghanistan Country Office, which are reproduced in appendices III and IV, respectively. Both included technical comments, which we incorporated into this report, as appropriate. USAID concurred with the second, third, and fourth recommendations; partially concurred with the first recommendation; and did not concur with the fifth recommendation. The World Bank concurred with the second and fourth recommendations, partially concurred with the first and third recommendations, and did not concur with the fifth recommendation.

USAID Comments

In response to our first recommendation, USAID stated that it agrees with the first part of the recommendation, to expand the scope of the Monitoring Agent's physical verification of Afghan government employees' salaries to include methods for performing verifications in insecure areas. USAID commented that during the second half of 2017, it collaborated with the World Bank and other donors to take steps to strengthen the monitoring and oversight of the ARTF. Specifically, USAID expects to implement a plan in 2018 that includes applying third-party monitoring to more projects, improving sampling (in addition to reaching out to higher-risk locations to perform physical verification of employees' salaries), and incorporating a more explicit focus on detecting fraud and corruption risks, as well as implementation failures. USAID intends to incorporate these recently proposed changes to monitoring and reporting in the next modification of its agreement with the World Bank. USAID did not concur with the second part of the first recommendation, to require the Monitoring Agent to use the verification results when calculating the eligibility rate. USAID explained that it agrees with the World Bank that the Bank must first determine the extent to which Afghan government employees on the payroll are physically verifiable. USAID stated that after this is complete, it can then make a more informed decision about whether to adjust how the eligibility rate is calculated. USAID requested that we close the first part of the recommendation because it has been addressed. However, it will remain open until the proposals cited have been finalized and implemented.

USAID concurred with our second recommendation. USAID stated that the World Bank, donors, and the Afghan government are in agreement that the monitoring entities detailed reports will be shared with USAID and other donors. USAID also stated that the World Bank agreed to increase both the number of staff it has working on the ARTF in Afghanistan and the number of field visits conducted by "experts" from headquarters. USAID did not specifically comment on the part of our recommendation calling for the Bank to address gaps in its public records. USAID requested that we close the second recommendation because it has been addressed. We do not consider this recommendation fully addressed, and it will remain open until we receive information from USAID, the World Bank, or both describing the specific steps being implemented to address gaps in public records.

USAID concurred with our third recommendation, stating that it considers the recommendation to be a beneficial step for monitoring. USAID said it has expressed to the World Bank the importance of following language in the current USAID ARTF Grant Agreement and of conducting independent performance evaluations of the Monitoring Agent and Supervisory Agent. USAID also stated that it will modify its next grant agreement with the World Bank to require the Bank to conduct periodic performance evaluations of the monitors, and will "strongly encourage" the Bank to make these evaluations public. This recommendation will remain open until we receive information confirming that this requirement is incorporated into the next grant agreement.

USAID concurred with our fourth recommendation. USAID commented that it will work closely with the World Bank to help the Bank implement its performance measurement guidance. However, USAID also stated that it “has been unable to find specific instances in which the World Bank failed to implement this guidance.” We find this response confusing because our report specifically highlights multiple instances where the World Bank did not follow its own performance measurement guidance. This recommendation will remain open until we receive information demonstrating improvements and how USAID is specifically helping the Bank implement its own guidance.

USAID did not concur with our fifth recommendation. USAID stated all three components of the recommendation are inconsistent with the structure of the trust fund mechanism, and fall outside of USAID’s discretion to implement. As we discuss in this report, the structure of the trust fund results in three challenges that prevent USAID, donors, and the World Bank from addressing poorly performing ARTF projects. Our recommendation encourages USAID to work with other donors and the World Bank to consider making changes to the ARTF structure to mitigate these challenges, and does not suggest that USAID should take any action unilaterally. USAID stated that the ARTF Management Committee is the sole body responsible for making funding-allocation decisions, including canceling projects. However, ARTF donors do have the ability to influence the committee since they have control over whether and how much to contribute to the fund. Additionally, as USAID claimed in its comments, “both donors and the World Bank have the ability to identify poorly performing projects during implementation and engage in discussions with the GOA [Government of Afghanistan] on the need for timely corrective measures....” USAID has not offered any clear reason as to why it would oppose strengthening and formalizing this ability to address the problem of poorly performing projects. Therefore, we believe this recommendation is valid and should be implemented.

World Bank Comments

The World Bank concurred with the first part of our first recommendation, to expand the scope of the Monitoring Agent’s physical verification of Afghan government employees’ salaries to include methods for performing verifications in insecure areas. The Bank commented that it has drafted an idea to expand the geographic coverage of the physical verification along with other proposals to strengthen third-party monitoring. The World Bank disagreed with the second portion of the recommendation, to require the Monitoring Agent to use the verification results when calculating the eligibility rate. The Bank commented that it first proposes to expand the geographic coverage of physical verification and determine the extent to which government employees are “physically verifiable” before deciding whether to adjust how the eligibility rate is calculated. However, based on this response, it appears that the Bank in actuality partially agrees with the second part of the recommendation and intends to address it using a phased approach. As we reported, until the World Bank and ARTF Monitoring Agent include the results of the physical verification work when calculating the eligibility rate, risks will remain that RCW funding may be reimbursing expenditures for ghost employees. We consider this recommendation open and look forward to receiving information from the World Bank detailing the monitoring enhancements it has implemented.

The World Bank concurred with our second recommendation and stated that it is taking steps to address the shortcomings identified in our report. Specifically, the Bank has reclassified legal documents related to ARTF projects to make sure they are publicly available, started sharing detailed monthly Monitoring Agent’s reports with ARTF stakeholders in December 2017, and commissioned technical assistance to reclassify project documents “mistakenly” classified as “deliberative” or “official use only” as public documents. We are pleased that the Bank has started taking steps to improve its information sharing with donors and the public, and hope further progress will be made.

In response to our third recommendation, the World Bank stated that it concurs with the second part of the recommendation for the Bank to periodically share performance evaluations of the Monitoring Agent and Supervisory Agent with the donors and the public. The Bank also stated that it plans to work with the Monitoring Agent and Supervisory Agent for their respective current and future contracts to strengthen third-

party monitoring. The World Bank did not directly address whether it agrees with periodically conducting performance evaluations or explicitly state whether it agrees with the first part of the third recommendation, to incorporate a requirement in the U.S. ARTF grant agreement.

The World Bank concurred with our fourth recommendation, stating that it is working with development partners to further strengthen the results focus of the ARTF-supported operations. The World Bank has proposed enhancements to include a systematic review of project results framework, an assessment of implementing agencies' management information systems and data quality, and in-depth performance reviews of selected projects. We are pleased that the Bank is proposing enhancements to how it measures the ARTF's performance. However, proposals alone will not address the issues we identified. We look forward to receiving information from the World Bank detailing the enhancements it is implementing.

The World Bank did not agree with our fifth recommendation. The Bank stated that the recommendation "fails to recognize that the World Bank, as administrator, can and has exercised restructuring of projects, withholds or recovers financing based on performance, and incorporates conditionality mechanisms." We disagree with this statement and believe it takes our recommendation out of context. First, as we report, the World Bank and donors need the Afghan government's agreement to adjust a project. We have revised the language to reemphasize this. Additionally, the Bank itself comments that it has "opportunities to advise or persuade the government to restructure or even cancel a poorly performing project." Second, the World Bank does not provide specific evidence or an explanation for how it recovers funding based on performance. Therefore, it is unclear why the Bank would oppose the strengthening and formalizing of apparently preexisting ways of addressing poor project performance. The Bank then claims that our report does not adequately acknowledge that the ARTF Incentive Program is an example of a mechanism through which the Bank withholds funding based on poor performance. To the contrary, our report acknowledges in detail that the Bank can withhold funding from particular projects and activities, such as the Incentive Program. However, the World Bank then fails to recognize the distinction we made that the funds the Bank withholds from particular projects or activities is then put back in the broader ARTF account to be spent elsewhere. The funding is not withheld from the ARTF or Afghan government altogether, it is reapportioned to other ARTF projects or costs. Third, the World Bank states that although it does not use conditionality at the broader ARTF financing level, it does use it for "individual financing operations." The Bank again uses the ARTF Incentive Program as an example of conditionality. However, as we report, and a senior World Bank official overseeing the ARTF acknowledged, there is a difference between the Incentive Program and using conditionality to withhold funding until all conditions are met.

The Bank also stated that our recommendation "contradicts the internationally recognized principles and practices of pooling donor funding for increased efficiency and effectiveness." The Bank did not elaborate on what contradiction exists and only stated that it cannot allow individual donors "to unilaterally adjust the scope of a project." Our recommendation did not state that donors should act unilaterally. Instead, we recommended that USAID consult with other donors and the World Bank to consider making changes. Therefore, we believe our recommendation is valid and should be implemented.

APPENDIX I - SCOPE AND METHODOLOGY

This audit examined the World Bank's administration and oversight of the Afghanistan Reconstruction Trust Fund (ARTF) from 2011 to 2017. The objectives of this audit were to assess (1) assess the extent to which the World Bank, working with the Afghan government, has improved efforts to monitor and account for ARTF funding since 2011; (2) assess the extent to which the World Bank measured and reported to donors on the performance and outcomes of ARTF development projects; and (3) identify the challenges, if any, donors face in holding the Afghan government accountable for ARTF implementation.⁵⁶

To assess the extent to which the World Bank, working with the Afghan government, improved the monitoring and accounting of ARTF funding since 2011, we reviewed:

- World Bank and USAID ARTF grant award agreements;
- World Bank and Afghan government ARTF legal agreements;
- the *ARTF Incentive Program Memorandums of Understandings between the Islamic Republic of Afghanistan and The World Bank As Administrator of the ARTF Multi-Donor Trust Fund*;
- the ARTF Financing Strategy and financial reporting documents;
- ARTF governance and meeting minutes;
- World Bank policies and guidance, such as the *Management Framework for World Bank-Administered Trust Funds*, the *World Bank Operational Manual—Operational Policy 14.40 – Trust Funds* and the *ARTF Results Management Framework*;
- World Bank legal agreements with its Supervisory and Monitoring Agents; and
- Monitoring and Supervisory Agent monitoring reports.

We also met with the Department of the Treasury's Office of Development Results and Accountability, which is responsible for monitoring how the World Bank spends U.S. funds, to understand the agency's responsibilities for reporting to the U.S. Congress. We also followed up on the recommendations and findings in SIGAR's 2011 audit of the ARTF to help identify how the monitoring and accounting of ARTF funding has changed or improved.⁵⁷

To assess the extent to which the World Bank measured and reported on ARTF performance, we requested information from the World Bank and the U.S. Agency for International Development (USAID) necessary to identify the ARTF's goals and objectives, obtain performance documents and reports on the ARTF, and understand how the World Bank assessed ARTF performance. We reviewed the World Bank's performance measurement guidance for measuring and reporting program and project performance, such as the *Operations Policy and Country Services Implementation Completion and Results Report Guidelines*, the *2013 Investment Project Financing-Preparing the Project Appraisal Document (PAD)*, and the World Bank Independent Evaluation Group's *Guidelines for Reviewing World Bank Implementation Completion and Results Reports: A Manual of Evaluators*. We reviewed World Bank ARTF performance measurement documents and performance reports, such as Investment Window and Recurrent Cost Window implementation status reports and implementation completion and results reports, ARTF Incentive Program technical review reports, project appraisal documents, and results frameworks. In addition, we reviewed World Bank and external evaluations of the ARTF, including:

⁵⁶ During most of our audit, the U.S. Agency for International Development's (USAID) Office of the Inspector General (OIG) was concurrently conducting its own audit of the ARTF that focused on USAID's oversight of the fund. USAID OIG published its report on August 16, 2017 (see USAID OIG, *USAID Planning and Monitoring Gaps Weaken Accountability for Results Through the Afghanistan Reconstruction Trust Fund*, Audit Report 8-306-17-004-P, August 2017).

⁵⁷ SIGAR, *The World Bank and the Afghan Government Have Established Mechanisms to Monitor and Account for Funds Contributed to the Afghanistan Reconstruction Trust Fund, but Some Limitations and Challenges Should Be Addressed*, SIGAR Audit 11-14, July 22, 2011.

- Scanteam’s 2008 Afghanistan Reconstruction Trust Fund: External Evaluation and 2012 ARTF at a Cross-Roads: History and the Future;
- a 2015 Swedish International Development Cooperation Agency Helpdesk on Human Security report, The Peacebuilding Potential and Conflict-Sensitivity of the Afghanistan Reconstruction Trust Fund (ARTF); and
- the United Kingdom Department for International Development’s 2015 Annual Review of the ARTF.

We also selected a judgmental sample of six ARTF Investment Window projects for closer review to assess how the World Bank measures project performance. We first obtained a universe of 51 ARTF Investment Window projects as reported on the World Bank’s ARTF website as of January 2017 and then narrowed that universe to projects that were either active or closed during the scope of our audit from 2011 to 2017. We then selected six projects, based on their funding amounts, to ensure that all five ARTF development sectors—agriculture, human resources, infrastructure, public sector capacity and governance, and rural development—were represented.⁵⁸ We then assessed the World Bank’s performance measurement and reporting activities against the Bank’s performance measurement guidance describing how it should be conducted. We also interviewed World Bank technical staff responsible for measuring and reporting on the six projects’ performance.

To identify the challenges donors face in holding the Afghan government accountable for ARTF implementation, we requested information from World Bank and USAID officials, and representatives of other donor countries, specifically Australia, Canada, Denmark, the European Union, Germany, Sweden, and the United Kingdom. We also requested information from these same officials and donors explaining how the World Bank and donors have addressed any identified challenges.

For all of the objectives, we interviewed:

- officials from the World Bank’s headquarters in Washington, D.C., and the Afghanistan country office in Kabul, Afghanistan responsible for administering, monitoring, and evaluating the ARTF;
- officials with the USAID Mission for Afghanistan and the Office of Pakistan and Afghanistan Affairs who were responsible for monitoring the U.S. government’s contributions to the ARTF;
- the former and current ARTF third-party monitors: Binder Dijker Otte International, the International Relief and Development Inc. (now known as Blumont) and Management Systems International, Inc.;
- Afghan government representatives from the Ministry of Finance’s Aid Management and General Budget Directorates and the Ministry of Rural Rehabilitation and Development, and the Social Development Advisor to Afghanistan’s President; and
- representatives from Australia, Canada, Denmark, the European Union, Germany, Sweden, and the United Kingdom.

We did not use or rely on computer-processed data for the purposes of our objectives. However, for our analysis of World Bank and ARTF donor disbursements, we relied on the data the Bank provided to us, which we could not independently verify since it included funding from other countries. However, we report discrepancies in the data the World Bank published online and directly provided to us in the body of this report. We also assessed the World Bank’s internal controls to determine the extent to which it had systems in place to oversee and report on ARTF efforts. The results of our assessment are included in the body of the report.

We conducted our audit work in Kabul, Afghanistan, and Washington, D.C., from December 2015 to April 2018, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a

⁵⁸ We selected our judgmental sample in January 2017. At that time, the World Bank reported that there were five development sectors and 51 ongoing or completed Investment Window projects since 2011.

reasonable basis for our findings and conclusions based on our audit objectives. This audit was performed by SIGAR under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978.

APPENDIX II - DONOR CONTRIBUTIONS TO THE ARTF SINCE 2002

According to the World Bank's website for the Afghanistan Reconstruction Trust Fund (ARTF), as of November 2017, 34 donors had contributed approximately \$10.2 billion to the fund. Table 3 lists the donors and their respective contributions.

Table 3 - Donor Contributions to the ARTF Since 2002

ARTF Donor	Paid-in Contributions (\$ millions)	Percent of Total ARTF Contributions (%)
Australia	\$400.30	3.9%
Bahrain	0.50	0.0
Belgium	13.13	0.1
Brazil	0.20	0.0
Canada	727.48	7.2
Czech Republic	3.41	0.0
Denmark	167.27	1.6
European Commission/European Union	820.03	8.1
Estonia	3.49	0.0
Finland	124.54	1.2
France	27.09	0.3
Germany	740.38	7.3
India	1.79	0.0
Islamic Republic of Iran	0.99	0.0
Ireland	16.12	0.2
Italy	154.07	1.5
Japan	479.03	4.7
Republic of Korea	16.00	0.2
Kuwait	15.00	0.1
Luxembourg	10.04	0.1
Netherlands	537.13	5.3
New Zealand	0.63	0.0
Norway	496.54	4.9
Poland	8.54	0.1
Portugal	1.18	0.0
Russian Federation	4.00	0.0
Saudi Arabia	25.00	0.2
Spain	91.50	0.9
Sweden	398.38	3.9
Switzerland	10.21	0.1
Turkey	0.50	0.0
United Nations Development Programme	2.41	0.0
United Kingdom	1,749.35	17.2
United States	3,127.68	30.7
TOTAL	\$10,173.91	100.0%

Source: SIGAR analysis of World Bank data

APPENDIX III - COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



MEMORANDUM

April 9, 2018

TO: John F. Sopko
Special Inspector General for
Afghanistan Reconstruction (SIGAR)

FROM: Gregory Huger *J.F. for Greg Huger*
Assistant to the Administrator for
Afghanistan and Pakistan

SUBJECT: U.S. Agency for International Development (USAID)
Response to Draft SIGAR Report on the Afghanistan
Reconstruction Trust Fund (SIGAR Report 18-XX under
Code 112A)

REF: SIGAR Transmittal email dated 03/05/2018

USAID thanks SIGAR for the opportunity to comment on Draft Audit Report 18-xx.

The Afghanistan Reconstruction Trust Fund (ARTF) is a World Bank-administered, multi-donor trust fund that is the main pillar of multilateral, on-budget support to the Government of Afghanistan (GOA). The ARTF's goals are to support the GOA's efforts to deliver essential services, support the reconstruction and development of Afghanistan, and bolster the GOA's fiscal sustainability. The ARTF also serves as a key mechanism for coordination and policy dialogue between the GOA and the 34 donors that provide assistance to Afghanistan, which enables donors to work together to achieve shared development goals, and to avoid duplication.

USAID's participation in the ARTF, through a contribution grant to the World Bank, is one approach the U.S. Government uses to finance the reconstruction of Afghanistan, advance development programs, and enhance public financial management. Through the ARTF, USAID has helped the GOA to provide essential public services to the Afghan people, and achieve development results that contribute to reducing poverty and enhancing living standards. USAID's contributions to the ARTF have promoted and advanced gains in women's empowerment, education, health, agriculture, infrastructure, governance, public financial management, and rural development, in close coordination with

U.S. Agency for International Development
Great Massoud Road
Kabul, Afghanistan

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<http://afghanistan.usaid.gov>

partner countries, while supporting multilateral goals. Projects implemented through the ARTF encourage the conditions needed to stimulate private sector growth, and to enable the efficiency, accountability and transparency of public spending. They also help preserve peace, promote stability, and reduce the potential for terrorism.

Effective management and monitoring of USAID's contributions to the ARTF are central to our work. USAID has applied its project-management standards to ARTF, and USAID has employed planning, oversight, and reporting practices for our contributions, in accordance with policy and statutory regulations. With regard to SIGAR's audit recommendations to improve the monitoring and accounting of ARTF funding, USAID partly concurs with Recommendation 1; concurs with Recommendations 2, 3, and 4; and does not concur with Recommendation 5.

SIGAR Recommendations

SIGAR recommends that the USAID Administrator, as the U.S. Government's ARTF representative, work with the World Bank to:

1. Expand the scope of the Monitoring Agent's physical verification of Afghan government employees' salaries to include methods for performing verifications in insecure areas, and require the Monitoring Agent to use the verification results when calculating the eligibility rate.

USAID Comments: USAID **partly concurs** with Recommendation 1.

Actions Taken/Planned: With regard to the first part of the recommendation, USAID and other donors collaborated with the World Bank during the second half of calendar year (CY) 2017 to further strengthen monitoring and oversight of the ARTF and develop an enhanced monitoring plan. The enhanced plan, now expected to roll out in 2018 under the ARTF Partnership Framework and Financing Program (PFFP), includes the following: (i) applying third-party monitoring to more projects; (ii) improving sampling, in addition to reaching out to higher-risk locations to perform physical verification of employees' salaries; and (iii) incorporating a more explicit focus on detecting fraud and corruption risks, as well as implementation failures; for example, the World Bank accepted USAID's proposal on the need to conduct forensic audits to deal effectively with cases of potential fraud and mismanagement of ARTF funds (i.e., cases of evident discrepancies in payroll figures). USAID will incorporate these recently agreed-upon changes to the monitoring and reporting approach of the ARTF in the next modification to USAID's agreement with the World Bank.

In addition, the World Bank informed USAID that it aims to employ a more precise, risk-based approach to monitoring the ARTF, including targeted physical verification of the salaries of government employees. Under the next PFFP, both the in-depth reviews and sampling for physical verification will be carried out more purposively, based on prior analysis aimed at identifying higher-risk cases, including those in insecure areas.

With regard to the second part of the recommendation, to require the Monitoring Agent to use the verification results when calculating the eligibility rate, USAID concurs with the World Bank that this requires expanding the geographic coverage of physical verification. After verifying to what extent Afghan government employees on the payroll are physically verifiable, we can make a more informed decision about whether to adjust the eligibility calculation method.

Finally, as SIGAR mentioned, one of the ways USAID considered improving the monitoring and accounting of ARTF was to request geographic preferencing of its funds. USAID never officially requested this; however, as the World Bank agreed to our requests to enhance monitoring across its portfolio, we no longer believed geographic preferencing was necessary. At SIGAR's convenience, USAID is willing to explain in more detail why our position changed.

Target Closure Date or Closure Request Statement: With regard to the first part of this recommendation, no further action is necessary, as the World Bank and USAID have an agreement on improved verification efforts. USAID expects to share both the expanded scope of ARTF monitoring, and reports of physical verification under the PFFP, during CY 2018. Therefore, USAID requests SIGAR's concurrence with the closure of this part of the recommendation. USAID does not concur with the second part of the recommendation.

2. Plan and implement specific steps to improve donor access to information regarding how ARTF funds are managed, including addressing gaps in public records available online, and providing the donors access to the full, complete Monitoring Agent reports.

USAID Comments: USAID **concur**s with Recommendation 2.

Actions Taken/Planned: During CY 2017, USAID and other donors discussed the need to improve information-sharing mechanisms on ARTF funds and related oversight with the World Bank and the GOA. All parties are now in

agreement that monitoring entities' detailed reports will be shared with USAID and other donors on a regular basis, including through the ARTF website. The World Bank also agreed to increase both the number of its staff on the ground who work on the ARTF and the frequency of field visits by experts from headquarters. The World Bank has already implemented some of these actions.

Target Closure Date or Closure Request Statement: No further action is necessary. The World Bank and USAID agreed on, and have begun implementing, specific steps to increase information-sharing. USAID requests the closure of this recommendation.

3. Incorporate a requirement in the U.S. ARTF grant agreement that the World Bank periodically conduct and share performance evaluations of the Monitoring Agent and Supervisory Agent with donors and the public.

USAID Comments: USAID **concur**s with Recommendation 3.

Actions Taken/Planned: USAID considers this a beneficial step for monitoring, and has already partly reflected it in Section 6(b) of the 2012 USAID–World Bank ARTF agreement, which states: “The Bank will perform ex-post evaluation of the activities undertaken by the Monitoring Agents, and will, upon completion of the activities financed under the Trust fund, arrange for an independent review of the performance of the Monitoring Agents and report its finding to the Donors.”

While the World Bank has not performed an independent performance evaluation of the monitoring entities to date, ARTF has undergone four external reviews. The third and fourth reviews analyzed third-party monitoring, and made recommendations on the program. USAID has expressed to the World Bank the importance of following this clause of the current agreement, and of conducting an independent performance evaluation of the monitoring entities, as well as sharing the evaluation with the public.

In the next modification to USAID's agreement with the World Bank, USAID will require the World Bank to conduct periodic performance evaluations of the monitoring entities, and will strongly encourage the World Bank to make these evaluations available to the public.

Target Closure Date or Closure Request Statement: Based on the above, USAID requests the closure of the recommendation.

4. Work with the World Bank to ensure that the Bank fully adheres to and implements its own existing performance measurement guidance when measuring the performance of the ARTF and its development projects.

USAID Comments: USAID **concur**s with Recommendation 4.

Actions Taken/Planned: The World Bank applies its standard approach to fiduciary oversight and monitoring and evaluation to the ARTF. This includes, among other initiatives, the ARTF scorecard, regular implementation-support missions to assess project implementation, fiduciary management, and audits of specific activities. In addition, World Bank staff regularly refer all alleged cases of corruption to the World Bank's Integrity Vice Presidency (INT), which conducts independent investigations.

USAID will continue to review all the aforementioned documents, and will work closely with the World Bank to implement its performance measurement guidance. However, USAID has been unable to find specific instances in which the World Bank failed to implement this guidance.

Target Closure Date or Closure Request Statement: Based on the above, USAID requests the closure of the recommendation.

5. Allow donors to (a) cancel or adjust the scope of projects that are failing, in danger of failing, or that do not otherwise meet desired program objectives; (b) withhold or recover money from the Afghan government based on a project's performance or the Afghan government's implementation of the project; and (c) incorporate conditionality mechanisms into the ARTF funding scheme by linking funding to specific agreed-upon conditions.

USAID Comments: USAID **does not concur** with Recommendation 5.

Actions Taken/Planned: With regard to recommendations 5a and 5b, under the existing ARTF mechanism, both donors and the World Bank have the ability to identify poorly performing projects during implementation and engage in discussions with the GOA on the need for timely corrective measures, including restructuring or terminating development projects. However, the ARTF Management Committee is the sole body responsible for making funding-allocation decisions, including to cancel projects; the U.S. Government cannot cancel projects unilaterally. This is because development assistance channeled through multi-donor trust funds, unlike bilateral investments, is pooled. This also means that if funds were withheld or recovered from the GOA, they would be deposited back in the ARTF parent account, not returned to individual donors.

With regard to Recommendation 5c, the ARTF's Recurrent Cost Window (RCW) is expected to be an entirely conditionality-based mechanism under the PFFP (2018-2020). This means that RCW funds will only be disbursed to the GOA after it meets certain milestones under the Incentive Program (IP). Moreover, the ARTF is already moving towards results-based disbursements for the two largest Investment Window (IW) projects—SEHAT Mandi and Education Quality Reform in Afghanistan (EQRA)—which are the focus of USAID's future IW contributions.

SEHAT Mandi will implement performance-based contracts with non-governmental organizations and link payment to measurable performance standards, tracked and verified by a third-party monitor. Similarly, under EQRA, the ARTF will only make disbursements after the verification of disbursement-linked indicators by a third-party monitor. However, with the exception of SEHAT Mandi and EQRA, all the remaining projects under the IW usually require advance fund allocations, similar to USAID instruments, without necessarily requiring prior performance and delivery of results. Therefore, from a technical standpoint, a conditionality-based mechanism of disbursement for all the ARTF's IW projects is not feasible.

Accordingly, all three sections (a, b, and c) under Recommendation 5 are inconsistent with the trust fund mechanism, and fall outside of USAID's discretion to implement.

Target Closure Date or Closure Request Statement: Based on the above, USAID does not concur with the recommendation.

APPENDIX IV - COMMENTS FROM THE WORLD BANK



Street 15, House 19, Tel: (0093) 701133341
Wazir Akbar Khan
Kabul, Afghanistan

April 4, 2018

The Honorable John F. Sopko
Special Inspector General for Afghanistan Reconstruction
1550 Crystal Drive, 9th Floor
Arlington, VA 22202

Dear Mr. Sopko:

Re: World Bank Response to SIGAR Follow-On Audit of the ARTF (Report SIGAR 18-XX-AR/Afghanistan Reconstruction Trust Fund)

Thank you for the opportunity to review the Special Inspector General for Afghanistan Reconstruction (SIGAR)'s draft audit report "*Afghanistan Reconstruction Trust Fund: The World Bank Limits Transparency for Monitoring ARTF Funding and Cannot Determine the Overall Progress and Effectiveness of \$10 Billion in Donor Contributions*".

The Afghanistan team of the World Bank appreciates SIGAR's efforts to assess the performance of the Afghanistan Reconstruction Trust Fund (ARTF), which functions since 2002 as a coordinated mechanism to finance the Government of Afghanistan's recurrent civilian budget and priority national investment projects. The ARTF remains the donors' vehicle of choice for pooled funding given its low transaction and management costs, transparency and accountability. It provides a well-functioning arena for policy debate and consensus creation while delivering important results within key sectors including agriculture, education, governance, health, infrastructure, and rural development. We agree that the recommendations offered by SIGAR lay out an opportunity for the Government of Afghanistan, ARTF donors, and the World Bank to strengthen the focus on results and accountability.

With that said we would like to see the title of the draft publication changed to read as follows: "*Afghanistan Reconstruction Trust Fund: The World Bank Needs to Strengthen Monitoring of ARTF Funding, Progress and Effectiveness*". This is because the title as currently phrased by SIGAR can be misleading in the two ways elaborated below.

SIGAR Comment 1

First, the phrase '*the World Bank limits transparency*' suggests the World Bank's intentional efforts to limit transparency. In fact, most of the facts quoted by the SIGAR audit report relate to the World Bank's Access to Information policy, which provides donors and the public with access to any information in its possession that is not in its list of exceptions¹. The policy also outlines a clear process for making information publicly available and provides a right to appeal if information-

¹ <http://www.worldbank.org/en/access-to-information/ai-exception>

seekers believe they were improperly or unreasonably denied access to information, or there is a public interest case to override an exception that restricts access to certain information. This policy has evolved over time and therefore some documents from older projects may not be public simply because the Access to Information policy at the time did not require their disclosure. This would be the case, for example, for the Implementation Supervision Reports (ISRs) that were mandated to be made public only in 2010. In some of the other cases, we admit the way this policy has been followed has not been fully consistent across projects in the ARTF portfolio and have already taken measures to rectify the observed shortcomings.

Second, the phrase *‘The World Bank... cannot determine the overall progress and effectiveness of \$10 Billion in Donor Contributions’* is not compatible with the findings of the report. Most of the findings, while appreciated to the extent they show room for improvements on the Bank’s part, are somewhat anecdotal, showing a lapse in reporting at a particular moment in years of project implementation but not necessarily as recurrent weaknesses that were never addressed. We take the quality of project results frameworks seriously, while also approaching them with pragmatism based on professional judgment, and several other tools relevant to the circumstances of each projects². For example, the report questions instances in which a project team reported satisfactory progress in the face of no change in the indicators. This is because of lags between outcome and intermediate indicators and input indicators that are readily observable during supervision and could support inference based on the results-chain and professional judgement. Missing indicators do raise a flag for the Bank management but it would still be possible to arrive at a judgment on project performance.

SIGAR Comment 2

SIGAR Comment 3

There are also circumstances in which it is not technically possible nor desirable to have baselines or targets at the start of a project. Please refer to our earlier clarifications regarding why the end targets were not specified in the Kabul Municipal Development Program and the National Solidarity Program III. Additionally, the basis of the audit report’s conclusion that the Bank cannot determine overall progress and effectiveness of the ARTF seems to be derived primarily from the review of the Implementation Status & Results Reports (ISRs) for the six investment projects reviewed. Other relevant reports to consider for judging the overall effectiveness of the entire ARTF portfolio for the past 15 years include the Implementation Completion and Results Report (ICRRs), each of which is also separately reviewed by the Independent Evaluation Group (IEG) for its quality. We also would like to report that the IEG’s external review of the Afghanistan portfolio does not show a significant candor gap by the Bank team in the assessment and implementation and assessment of projects. As the table below shows out of the 41 projects which have exited the Afghanistan portfolio to date, only 6 have shown a disconnect between the IEG and the Bank teams’ assessment on development outcome ratings, and in two of these cases, IEG had a more favorable rating than the Bank.

SIGAR Comment 4

SIGAR Comment 5

² http://www.artf.af/images/uploads/home-ilder/Smart_Supervision_in_Fragile_and_Conflict_Situations_Monitoring_in_Afghanistan_January_2018_final.pdf

Table: Rating disconnect between IEG and Bank on Development Outcomes

EXIT FY	# of Projects	# of Projects with disconnect rating	More favorable rating
2005	2	0	
2006	4	0	
2007	2	0	
2008	2	0	
2009	4	1	Bank
2010	4	0	
2011	5	1	Bank
2012	5	1	Bank
2013	5	1	IEG
2014	5	1	IEG
2015	2	1	Bank
2016	1	0	
Total	41	6	

Source: World Bank

Further, the ARTF Strategy Group- comprising of the heads of development aid of the 14 major ARTF donors and the Ministry of Finance- who had an opportunity to review the draft report would like to note that while they collectively agree with the substance of the report recommendations, they also disagree with the title of the report which they view as a misrepresentation of its' content. The members of the ARTF Strategy Group³ during their meeting on April 4th, 2018 requested SIGAR to change the title to better reflect the contents of the report.

SIGAR Comment 6

Finally, the ARTF donors and partners have been appreciative of the frequent reports of results achieved on the ground as these weblinks illustrate:

USAID: <https://www.usaid.gov/afghanistan/health>
<https://www.facebook.com/USAIDAfghanistan/posts/1845649972129393>
<https://www.facebook.com/USAIDAfghanistan/photos/a.116712911689783.15520.116702588357482/1793622517332139/?type=3&theater>
<https://www.facebook.com/USAIDAfghanistan/posts/1737673579593700:0>
<https://www.facebook.com/USAIDAfghanistan/posts/1712750972085961:0>
 UK: <https://www.facebook.com/ukinafghanistan/posts/10155530502890631>
 UNAMA: <https://www.facebook.com/UNAMA.News/posts/10155601151055028>

We would also like to briefly comment upon the five recommendations made in the draft SIGAR audit report.

SIGAR Recommendations 1-3:

³ The ARTF Strategy Group members in attendance at the April 4th2018 meeting were: Australia, Canada, Denmark, EU, Finland, Germany, KfW, Japan, the Ministry of Finance, Netherlands, Norway, Sweden, Switzerland, UK, US, and the World Bank.

To improve overall World Bank monitoring and accounting of ARTF funding, SIGAR recommends that the U.S. Agency for International Development (USAID) Administrator, as the U.S. government's ARTF representative, work with the World Bank to:

1. Expand the scope of the Monitoring Agent's physical verification of Afghan government employees' salaries to include methods for performing verifications in insecure areas, and require the Monitoring Agent to use the verification results when calculating the eligibility rate.
2. Plan and implement specific steps to improve donor access to information regarding how ARTF funds are managed, including addressing gaps in public records available online, and providing the donors access to the full, complete Monitoring Agent reports.
3. Incorporate a requirement in the U.S. ARTF grant agreement that the World Bank periodically conduct and share performance evaluations of the Monitoring Agent and Supervisory Agent with donors and the public.

The World Bank Comment to Recommendations 1-3:

We agree with the first portion of Recommendation 1. In fact, we had come to the same conclusion that the geographic coverage of the physical verification of government employees should be expanded for additional assurance. We included this idea as part of the Anti-Corruption and Results Monitoring Action Plan (ACReMAP), (the initial draft was shared with SIGAR on February 13, 2018) along with other proposals to strengthen ARTF third-party monitoring (TPM). We will be seeking endorsement of these proposals by the ARTF Steering Committee at the next meeting. Regarding the second portion of the Recommendation 1, to link the results of the physical verifications to the calculation of the eligibility rate, we maintain our previous position explained in our briefing note on the topic. To repeat, we see the need to strike a balance between the additional assurance that the physical verification process undoubtedly provides, and the risk that the GoIRA is unable to claim reimbursement for expenditures that the desk-based payroll eligibility testing indicates do meet the basic fiduciary standards only because the Monitoring Agent (MA) was unable to physically verify their existence due to security-related concerns. The MA has verified the presence of 90 percent of those government employees in the sample that they have managed to reach. We do recognize that the risk of "ghost employees" might be higher in those areas that are difficult to reach for security reasons⁴. But first, we propose to expand the geographic coverage of this exercise and verify to what extent those government employees on the payroll are indeed physically verifiable in those locations before deciding whether to adjust the eligibility calculation method.

We concur with Recommendation 2 and thank SIGAR for pointing out the inconsistency in our adherence to our own information disclosure policy. We have already started rectifying the shortcomings identified. Specifically, we have: (i) reclassified each and every legal document related to ARTF projects to make sure they are in the public domain; (ii) we have been sharing the detailed

⁴Given the thoroughness of the document review and testing, even in situations where the MA is unable to physically verify employees because of security reasons, the current process does provide some degree of comfort since there would have to be widespread and ongoing collusion across many officials at disparate locations for all the documents to have been falsified.

monthly Monitoring Agent's reports with the members of the ARTF Strategy Group regularly since December 2017, in addition to the quarterly and annual summary reports that were already being shared; and (iii) we have commissioned technical assistance for reclassifying as public any project documents mistakenly classified as 'deliberative' or 'official use only' (this is to be completed in May due to the high volume of documents in the ARTF portfolio, going all the way back to 2002).

We concur with the second part of Recommendation 3 for the World Bank to periodically share its evaluations of the Monitoring Agent (MA) and Supervisory Agent (SA) performance with the donors and the public. We also note that World Bank continuously assesses the performance of the MA and the SA during their work, and provides feedback on areas of improvement. Further the ARTF has had four external reviews undertaken since its start. The third and fourth external reviews both analyzed the TPM arrangements and made recommendations on the program. One of the recent developments is the expanded number of projects to be supervised by the ARTF Supervisory Agent (SA) and the on-going effort to enhance the use of community monitors, including women. During 2018, the last year of the current MA and SA's contract, we plan to proceed in phases to complete our proposed strengthening of TPM and other associated fiduciary oversight and results monitoring and evaluation.

- In the first (current) phase (until June 2018), we will work with the SA and the MA under their respective current contracts. This limits our ability to immediately ramp up TPM but will afford us opportunities to further test/pilot some of the proposals, such as the collaboration between the SA and the MA to expand the geographic coverage of the physical verifications of government employees or the "risk-based surgical" field visits. We will also use this period to revise the TORs of the two TPM agents (the revision process has already started) with a view toward amending their contracts for the second phase.
- In this second phase (July-December 2018), under amended contracts, we will roll out the new, strengthened approach to TPM nationwide with roughly 50% increase in the number of project sites to be visited (from around 2,000 now to 3,000). Under this approach, the two TPM agents' key responsibilities will be consolidated into the following lines of complementary work: (i) conduct desk-based reviews of financial documents on recurrent expenditures for procedural compliance and eligibility determination (as has been done so far); (ii) apply a similar form of financial document reviews to investment projects, synchronized with planned field visits to inspect these projects; and (iii) carry out field verifications of civil works, service delivery and government employees, to the extent possible adopting a coordinated geographic targeting to exploit potential economy of scope and thus to minimize cost.
- In the third (steady-state) phase (January 2019 onwards), we propose to double the coverage (4,000 project sites) and with all ARTF projects subject to TPM (with exceptions, if justified from the value-for-money point of view). We envision a consortium of accounting and consulting firms to jointly cover all three lines of work listed above (incorporating any lesson we may draw from the two preceding phases).

SIGAR Recommendation 4:

To strengthen ongoing and future measuring and assessing of ARTF development project- and sector-level performance, SIGAR recommends that the USAID Administrator, in consultation with other ARTF donors:

4. Work with the World Bank to ensure that the Bank fully adheres to and implements its own existing performance measurement guidance when measuring the performance of the ARTF and its development projects.

The World Bank Comment to Recommendation 4:

We concur with this recommendation and are working with development partners to further strengthen the results focus of the ARTF-supported operations. The ACRMAP is also focusing on strengthening the results dimension at the program level. In addition to the proposal to ramp up TPM as described in the October 2017 note already shared with both USAID and SIGAR, the proposed enhancements in this area include: (i) a systematic review of project results framework; (ii) an assessment of implementing agencies' management information systems and data quality; and (iii) in-depth performance reviews of selected projects.

SIGAR Recommendation 5:

To help donors address challenges facing the effective implementation of ARTF funding, SIGAR recommends that the USAID Administrator, in consultation with other ARTF donors and the World Bank, consider making the following changes to the operation of the ARTF:

5. Allow donors to: (a) cancel or adjust the scope of projects that are failing, in danger of failing, or that do not otherwise meet desired program objectives; (b) withhold or recover money from the Afghan government based on a project's performance or the Afghan government's implementation of the project; and (c) incorporate conditionality mechanisms into the ARTF funding scheme by linking funding to specific agreed-upon conditions.

The World Bank Comment to Recommendation 5:

We cannot agree with this recommendation in its current formulation as it fails to recognize that the World Bank, as administrator, can and has exercised restructuring of projects, withholds or recovers financing based on performance, and incorporates conditionality mechanisms. The recommendation also contradicts the internationally recognized principles and practices of pooling donor funding for increased efficiency and effectiveness.

The ARTF, as an on-budget financing mechanism of trusting and pooling donor funds together for a development purpose, cannot allow individual donor discretion to unilaterally adjust the scope of a project. At the same time, the World Bank's policies and procedures have a full range of instruments to address project performance, from unilateral cancellation to project restructuring. The principle that adjustments to project design and scope should be based on mutual agreement between the Government and the Bank does not necessarily mean the Bank "lacks the ability to adjust the scope of ongoing projects." The entire project cycle of Bank-financed projects is built around pro-active dialogue between the Bank and the government as well as those development partners who choose to

SIGAR Comment 7

participate actively. This gives the Bank opportunities to advise or persuade the government to restructure or even cancel a poorly performing project, as we have recently done in the education sector, for example. Note also that as a trustee, the World Bank regulations require that all proceeds under the trust funds administered by the Bank be safeguarded against the fiduciary risks of misuse, gross wastage and misreporting. If funds are not used as per the terms of the trust fund agreement, the government must refund the Bank.

Regarding the conditionality mechanism, the Bank makes use of “conditionality” following its operational policies and directives at the level of individual financing operations and not at the level of a broader financing vehicle such as ARTF. At the level of individual financing operations, several types of conditionality restrict the availability and/or disbursement of funding to the government: effectiveness conditions, disbursement conditions, legal covenants, disbursement-linked indicators (DLIs) in the investment project financing, policy benchmarks in the development policy financing including the ARTF Incentive Program and so on. The SIGAR report acknowledges the availability of these various forms of “conditionality” for individual financing operations but fails to examine how the Bank has made use of these conditions and to what development effect. We also fail to understand how in practice a conditionality mechanism could be used at the level of the entire ARTF as advocated by SIGAR.

The SIGAR report audit statement that in no instance can the Bank withhold ARTF funds from the Afghan government because of poor ARTF implementation or performance (p. 20) is also not entirely accurate. For example, use of DLIs in investment operations would allow the Bank to withhold specific disbursements if an agreed performance benchmark was not met. Some DLIs are not timebound in that the implementing agency could achieve the target before the project closing and still have a disbursement triggered. But other DLIs are timebound and missing the target on time would result in the project forgoing that portion of the financing. A variant of this approach used in the Incentive Program is an exception that the Bank considers an innovation as it rewards over-achievement given our objective is to help the Government achieve a development outcome. The funding predictability is of paramount importance in the case of the Incentive Program and this again is a unique feature in Afghanistan given the Government’s high dependence on external financing, especially the ARTF Recurrent Cost Window, without which the civilian side of government operations would grind to a halt.

I would like to thank your team led by Eugene and Gabrielle for the sustained cooperation during this audit and helpful advice to the Afghanistan program.

Sincerely,



Shubham Chaudhuri
Country Director for Afghanistan
South Asia Region

SIGAR's Response to Comments from the World Bank

SIGAR Comment 1: The World Bank disagreed with the wording of our title and said it was misleading. After further review, we revised the title of our final report to address these concerns.

SIGAR Comment 2: We believe the World Bank is minimizing our concerns regarding performance measurement by claiming that our findings regarding \$2.25 billion worth of ARTF projects “are somewhat anecdotal, showing a lapse in reporting at a particular moment” but “not necessarily...recurrent weaknesses that were never addressed.” On the contrary, recurrent reporting weaknesses existed across a number of ARTF projects. Our report shows that the Bank did not consistently provide or report specific performance information for the projects we identified. Our findings also show that the Bank did not develop performance indicators in accordance with its own guidance, did not provide clear support or justification for the performance and progress ratings it gave projects, limited transparency on public records and donor access to information, and faced multiple issues preventing it from accurately measuring ARTF performance at the sector level or overall. Furthermore, as we report, the World Bank’s internal evaluators, an external evaluator, and other donors have all reported similar issues.

SIGAR Comment 3: The World Bank stated that “missing indicators do raise a flag for the Bank management but it would still be possible to arrive at a judgment on project performance.” It may still be possible to judge project performance with incomplete information, but as we reported, all of the gaps and issues in performance measurement that we identified in this report show that the Bank is not fully and accurately assessing ARTF performance. We assert the World Bank, donors, and the public should question the value of assessments that are incomplete, inaccurate, or both.

SIGAR Comment 4: The World Bank incorrectly suggests that our audit report’s conclusion is primarily “derived” from the implementation status and results reports (ISRs). We also reviewed other relevant reports that were available to us, such as project appraisal documents, results frameworks, Implementation Completion and Results Reports, and Independent Evaluation Group reviews of the Implementation Completion and Results Reports. As we reported, many of the performance records for the six projects that we examined were not available. See SIGAR comment 2 where we discuss our concerns with the Bank’s ability to measure ARTF performance.

SIGAR Comment 5: The World Bank’s comments did not indicate which specific Independent Evaluation Group external review or projects it is describing. If this report discusses the Bank’s entire Afghanistan portfolio, then it is broader than just ARTF projects and reporting.

SIGAR Comment 6: See SIGAR comment 1.

SIGAR Comment 7: We have clarified language on page 20 in the report to address the Bank’s comment.

APPENDIX V - ACKNOWLEDGMENTS

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SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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