



ISLAMIC REPUBLIC OF AFGHANISTAN

Ministry of Finance

Aid Management Policy (AMP)

For Transition and Beyond

2013



## Foreword

It is with great pleasure that I introduce the first comprehensive Aid Management Policy (AMP) for Afghanistan. The policy is a framework for partnership between GIRoA and Development Partners (DPs) post Tokyo Conference and through the transformation decade. It is a set of “guiding principles” to guide effective delivery of aid in Afghanistan, a plan to implement and monitor progress of mutual commitments made by GIRoA and our DPs. It also incorporates key elements from the Busan ‘New Deal’ and best practices on international engagement in fragile situations. We sincerely hope that donors will look again at their programs in the light of the international commitments they have made in Busan. Most importantly, the AMP incorporates lessons learnt in Afghanistan over the past decade of development partnership between the GIRoA and the International Community. The policy will support and accelerate the achievement of Afghanistan’s vision to move towards increasing self reliance by 2025; it will promote the realization of Kabul Process commitments outlined at the Kabul Conference in July 2010; address the short - medium term economic impacts of the exit strategy of the NATO-ISAF; and address the possibility of declining international aid commitments post 2014.

The policy will last for 5 years but will be subject to a mid-term review. It will be constantly monitored and may be subject to change when the need arises. Whilst the AMP is not a legally binding document, our intention is that Afghanistan’s development partners will use this policy, in partnership with the government, to guide decision making, actions and procedures to make the best use of aid investments.

The Government of Afghanistan has also entered into significant mutual commitments with its development partners. The implementation framework for this policy recognizes the importance of the commitments made under the Kabul Process and most recently reaffirmed at the Tokyo Conference in the form of a Mutual Accountability Framework (TMAF). This policy is therefore highly significant as it relates both the immediate required actions to the medium term plans of the government to gradually make aid more relevant, more targeted and more accountable to the Afghan people.

Our development partners have provided significant support to GIRoA for the last ten years. External aid will continue to play an important role throughout the transition period and beyond into the ‘transformation’ decade 2015-25. It is therefore crucial that the government and development partners work harder than ever to improve aid effectiveness across all sectors to secure maximum dividends for the people of Afghanistan. It is my sincere hope that the policy will be successful in providing a framework for the government and our development partners to build upon what we have achieved so far.

However, I wish to stress that good intentions alone are not enough to ensure the successful implementation of the policy. We must work together to combine our comparative strengths, and those of the Afghan communities and individual citizens in order to realize what the policy is trying to achieve. The only limits to this policy are those we place upon ourselves.

Lastly, I wish to convey my sincere appreciation to those who have devoted their energies and resources in producing this policy. In particular, I wish to thank Dr. Mustafa Mastoor, Deputy Minister for Finance, for leading the process, to the staff of the Aid Management Directorate (AMD) for coordinating the process under challenging circumstances, to all the government agencies that participated in the process and to all of our development partners for their steadfast commitment to making this policy a reality.

Dr. Omar Zakhilwal  
Minister of Finance

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## **Glossary of Key Terms and Definitions**

**“Afghanistan Financial Management Information System (AFMIS)”** means the double-entry General Ledger and Payments system of the Government of Afghanistan. It includes information on the latest annual budgets including year-to-date expenditure, unspent budget balance, and update of quarterly allotments, expenditure transactions and revenue summary.

**“Afghanistan National Development Strategy (ANDS)”** means Afghanistan’s Poverty Reduction Strategy Paper (PRSP). It is a framework document for Afghanistan’s development, aiming to promote pro-poor growth, support the development of democratic processes and institutions, and reduce poverty and vulnerability.

**“Afghanistan Reconstruction Trust Fund (ARTF)”** means the multi-donor pooled funding mechanism administered by the World Bank. ARTF is partially supporting the Government’s operating costs and contributes to the development budgets. ARTF aims at positioning the national budget as the key vehicle to align the development programs with national development objectives. It promotes transparency and accountability as well as enhances donor coordination and policy dialogue.

**“Alignment”** means external partners are aligned with NPP strategy and the underlying principles of all donor programs and projects are consistent with the NPPs stated approach. Alignment is fully achieved when donor funded projects and the National Priority Programs have common, unified and consistent objectives, plans, programs, projects and deliverables.

**“Civil Society Organizations (CSOs)”** means non-governmental and non-profit entities that pursue a wide range of interests including developmental, social, cultural, political and philanthropic. They include community groups, non-governmental organizations (NGOs), labor unions, women’s groups, charitable organizations, professional associations and advocacy groups. This definition, however, does not include the private sector, academia, municipalities and security organizations.

**“Core Budget”** means the portion of the National Budget that includes all funds flowing through the Treasury (i.e. domestic revenue and the portion of donor financing managed by GIRoA). It consists of an Operating Budget, covering the wage bill, most non-salary recurrent costs and some capital expenditures, and a Development Budget which includes most capital expenditures and all technical assistance.

**“Core Donor Consultations (CDCs)”** means bilateral meetings held between the Ministry of Finance and DPs on annual basis and prior to Budget Hearings to discuss on-budget support for each fiscal year. The purpose of CDCs is to ensure that the core budget adequately captures donor financing and that a realistic and timely-executable annual budget is prepared.

**“Development Assistance Database (DAD)”** means the GIRoA’s online database of project-level information on aid commitments and disbursements provided to Afghanistan. It allows the government to track aid flows, incorporate aid flows onto the national budget, improve donor coordination, share information, undertake analysis and prepare reports.

**“Development Cooperation Dialogues (DCDs)”** means annual bilateral policy dialogue between GIRoA and DPs intended to reach a mutual understanding of development priorities, strengthen partnerships for improving aid effectiveness, explore ways to utilize on-budget modalities, build consensus on the main challenges related to development and enhance predictability of aid flows to Afghanistan.

**“Development Cooperation Report (DCR)”** means an annual report by the Ministry of Finance including statistics and analysis on aid flows to Afghanistan. The DCR is also the main reference document summarizing the outcome and conclusions of the CDCs and DCDs.

**“Development Framework Agreements (DFAs)”** means a general agreement reached between two parties (in this case the GIRoA and a DP) which sets out the mutual understanding about the overall objective of development assistance, the criteria governing the provision of development assistance, the sectoral and geographic preferences, as well as the volume, type and implementation modality of aid provided to Afghanistan during a given time limit. DFAs are legally non-binding and place no obligations, unless otherwise agreed, on the parties to the agreement.

**“Development Partners (DPs)”** means all donor governments, their specialized agencies and organizations that are involved in development cooperation in Afghanistan, including OECD donors, South-South providers, multilateral organizations, and vertical funds.

**“Division of Labor (DoL)”** means the policies that define the sectoral engagement of development partners in the country aiming to promote equitable distribution of aid across all development sectors.

**“Financing Agreements (FA)”** means any of the following:

1. A grant agreement in which a donor sets out the terms and conditions under which it is prepared to make a grant available to GIRoA;
2. A statement outlining the terms of grant or a loan between a donor(s) and GIRoA;
3. A document describing in detail the specific responsibilities of and actions to be taken by each of the parties so that mutual goals can be accomplished.

**“Humanitarian Assistance”** means assistance designed to save lives, alleviate suffering and maintain and protect human dignity during and in the aftermath of emergencies. To be classified as humanitarian, aid should be consistent with the humanitarian principles of humanity, impartiality, neutrality and independence. Humanitarian aid includes:



- Disaster prevention and preparedness;
- The provision of shelter, food, water and sanitation, health services and other items of assistance for the benefit of affected people and to facilitate the return to normal lives and livelihoods;
- Measures to promote and protect the safety, welfare and dignity of civilians and those no longer taking part in hostilities and rehabilitation, and
- Reconstruction and transition assistance while the emergency situation persists.

Activities to protect the security of persons or property through the use or display of force are excluded. Humanitarian assistance also includes aid to refugees in developing countries, but not to those in donor countries. Relief food aid comprises supplies of food, and associated costs, provided for humanitarian relief purposes<sup>1</sup>

**“General (Direct) Budget Support”** means a method of financing a partner country’s budget through a transfer of resources from a donor to the partner government’s national treasury and managed in accordance with the recipient’s budgetary procedures. Funds transferred to the national treasury managed according to different budgetary procedures from those of the partner country, with the intention or earmarking the resources for specific uses, are therefore excluded (OECD 2006)<sup>2</sup>.

**“Joint Coordination and Monitoring Board (JCMB)”** means the high level dialogue between the Afghan Government and the international community for overall strategic coordination that focuses not merely on monitoring the implementation of the Afghanistan Compact but also include the provision of strategic and policy guidance on the prioritized implementation of the ANDS as well as the political visions and priorities agreed upon between the Afghan government and the international community at international conferences on Afghanistan in The Hague (March 2009), London (January 2010), and Kabul (July 2010). JCMB provides a platform for strategic coordination, joint policy formulation and problem solving in Afghanistan and ensures the mutual accountability of the government and its development partners.

**“Law and Order Trust Fund for Afghanistan (LOTFA)”** means the multi-donor pooled funding mechanism managed by UNDP Afghanistan as a funding modality for coordinating contributions from donors with the principle priority to cover police salaries, develop the capacity and fulfill the institutional reform of the MoI at the policy, organizational and individual level as well as democratic policing.

**“Medium Term Budget Framework (MTBF)”** means an approach to budgeting which links the spending plans of GIRA to its policy objectives. MTBF provides analysis of government

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<sup>1</sup> source OECD DAC Glossary of terms accessed at <http://www.oecd.org/site/dacsmpd11/glossary.htm#H>

<sup>2</sup> OECD 2006, Harmonising Donor Practices for Effective Aid Delivery, Vol. 2, Chap. 2: Budget Support.

policies, which results in allocation of funds to where they are most needed and the funds are allocated to highest priorities.

**“Medium Term Expenditure Framework (MTEF)”** means the matrix used by the government to strategically allocate financial resources (domestic revenue and foreign aid) amongst programs and projects and link allocations with outputs.

**“National Priority Programs (NPPs)”** means a set of 22 priority programs announced at the Kabul Conference (2010) representing a prioritized and focused approach to ANDS implementation including specific the development of specific deliverables and costing of programs.

**“Off-budget”** means any inflow of resources or spendings that are excluded from the national budget and not managed through the government systems.

**“Official Development Assistance (ODA)”** means flows of official financing (grants or loans) from donor governments, at all levels, to developing countries and to multilateral agencies which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent). In addition to financial flows, technical co-operation is included in aid. Grants, loans and credits for military purposes are excluded. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted ODA receipts comprise disbursements by bilateral donors and multilateral institutions.<sup>3</sup>

**“On-budget”** means all inflow of resources or spending, program and project aid, is aligned with the plans of budgetary units, are captured in the budget documentation, are appropriated by the Parliament and managed through the treasury system.

**“Portfolio Review”** means a detailed project/program review exercise conducted by MoF with DPs and line ministries on an annual basis to assess the progress on individual projects/programs that involves the government, the extent to which projects/program are achieving stated objectives, to identify implementation challenges and to formulate overall conclusions and recommendations for future projects/programs.

**“Project Implementation Units (PIUs)”** means dedicated management units designed to support the implementation and administration of specific projects or programs. Most PIUs are parallel to government structures (staffed externally and their reporting responsibility is directly to the donor agency funding the project/program), while some are partly integrated (report to the government and make use of government staff). PIUs are also commonly referred to as Project Support Units (PSUs), Project Management Units (PMUs), Grant Management Units (GMUs), Project Coordination Offices (PCOs) etc.

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<sup>3</sup> OECD DAC definition accessed at <http://stats.oecd.org/glossary/detail.asp?ID=6043>

**“Provincial Reconstruction Teams (PRTs)”** means dedicated units consisting of military officers, diplomats, and reconstruction subject matter experts, engaged in development projects through their reconstruction groups such as Civil Military Cooperation (CIMIC) ) and Quick Impact Projects (QIP) in the country.

**“Public Finance Management (PFM) Road Map”** refers to a plan aimed at strengthening the ability of government to effectively design and implement programs while demonstrating the highest standards of transparency and accountability. It focuses on four key aims:

- Strengthening the budget in driving effective delivery of key priority outcome
- Improving budget execution
- Increasing accountability and transparency
- Increasing the capacity of line ministries to implement program effectively and efficiently

**Security Expenditures:** The supply of military equipment and services, and the forgiveness of debts incurred for military purposes, are not reportable as ODA. On the other hand, additional costs incurred for the use of the donor’s military forces to deliver humanitarian aid or perform development services are ODA-eligible<sup>4</sup>.

**“Standing Committees (SCs)”** refers to the three committees operating under the JCMB structure. These include: 1) Security, 2) Governance, Rule of Law and Human Rights and 3) Social and Economic Development.

**“State Budget Planning System (SBPS)”** means the computerized web-based system for planning, formulation and execution of the national budget within MoF.

**“Technical Assistance (TA)”** also referred to as technical cooperation, means the provision of know-how in the form of personnel, training, and research and associated costs. TA can include any of the following categories:

- The provision of or payment to consultants, advisers, experts and similar personnel including the cost of associated equipments.
- Grants to nationals of aid recipient countries receiving education or training at home or abroad.
- Financing of consulting services, technical support and the provision of know-how linked to the execution of an investment project.

**“Tied aid”** refers to official grants and loans where procurement of the goods or services involved is limited to the donor country or to a group of countries.

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<sup>4</sup> Is it ODA? accessed at <http://www.oecd.org/dac/aidstatistics/34086975.pdf>



# Chapter One

## Rational, Scope and Application

### Introduction

This Policy is developed based on the regulation-making authority of agencies of the Islamic Republic of Afghanistan as set out in Article 76 of the Constitution of the Islamic Republic of Afghanistan. The Implementation and Monitoring Framework (Annex C) also takes into account the legal framework justifying and setting out context for the policies.

This Aid Management Policy (AMP) aims to support and accelerate the achievement of Afghanistan's vision to move towards increasing self reliance by 2025, a commitment made at the International Conference on Afghanistan in Bonn in December 2011. This policy also promotes the realization of Kabul Process commitments outlined at the Kabul Conference (July 2010). It specifically addresses the short - medium term impacts of declining military presence and the exit strategy of the NATO-ISAF, with the concomitant changes to the delivery and profile of aid over the next three years. It also addresses the possibility of declining international aid commitments post 2014. The policy also addresses the key issues of fiscal management, government capacity and development partnerships. The Policy is inextricably linked to the commitments made at the Tokyo Conference, notably the Tokyo Mutual Accountability Framework (TMAF, July 2012). The Afghan Government and the International Community have reaffirmed and further consolidate their partnership from Transition to the Transformation Decade. This AMP supports the renewed stronger foundation for partnership that will support sustainable growth and development of Afghanistan throughout the Transformation Decade (2015-2024).

The government of Afghanistan's first policy for aid management was an integral chapter of the Afghanistan National Development Strategy (ANDS) in 2007. However, revisions to the original Aid Policy are required to reflect the changing political and economic context at national and international levels, as well as lessons learned in implementing the ANDS.

It is necessary to *reaffirm* the commitments of both the government and its partners to agree and implement the principles outlined in this document to help make aid delivery and utilization effective. It is also timely to *incorporate* commitments and recommendations from new international agreements embodied in the two outcomes of the Fourth High Level Forum on Aid Effectiveness (HLF-4), held in Busan, Republic of Korea (December 2011), namely the Busan Partnership for Effective Development Cooperation and the New Deal for Engagement in Fragile States (hereinafter 'The New Deal'). The increasing potential role of civil society organizations in promoting transparency and accountability must also be considered. In addition, the President of Afghanistan has, inter alia, highlighted the importance of managing aid effectively in his recent historic Presidential Decree number 45 following commitments he made to the parliament. The Priority Implementation Matrix therefore clearly highlights those priority policies and commitments that arise from:

- Presidential Decree No. 45 dated 26th July 2012 of the President of the Islamic Republic of Afghanistan
- Tokyo Conference Mutual Accountability Commitments (2012)
- International Commitments made under the Busan Partnership for Effective Development Cooperation and the New Deal for Engagement in Fragile States

The AMP was developed through a multi-stage consultative process with Development Partners (DPs), including bilateral and multilateral donors, civil society organizations and government departments central to aid management. It was led by the Aid Management Directorate of the Directorate General Budget (DGB) at Ministry of Finance. This policy covers a period of five years (2012 – 2017) and will undergo a mid-term review by early 2015 to reflect upon evolving domestic and global strategies on aid and development effectiveness. At various times during the life of this policy, the government may make additional commitments in international fora such as the TMAF commitments at Tokyo. Other priorities may arise through the normal business of the Office of the President and parliament. Such changes as may arise will be communicated to development partners.

This first chapter outlines the rationale, purpose, scope, application and the objectives of the AMP. The second chapter proposes recommendations agreed jointly with our partners to address aid management. This chapter also explains the derivation of appropriate policies and our approach to the AMP. The third and last chapter focuses on implementation and monitoring mechanisms for the AMP.

## **Rationale and Purpose**

Since the collapse of the Taliban regime, Afghanistan has been one of the largest beneficiaries of aid in the world. The government is committed to make better use of the aid it receives now and in the future. The government is also committed to integrating the principles of new agreements such as the Busan Partnership for Effective Development Cooperation and the New Deal with its individual national context, which will help increase the effectiveness of external assistance for improved impact.

Afghanistan has already undergone extensive reforms, reconstruction and introduced many initiatives to enhance the effectiveness of external assistance. This new policy builds on the previous Aid Policy to increasingly provide a coherent and consolidated framework, to cover the period 2012-2017, to address the continuous challenges of ensuring effectiveness of aid and development. The government needs an aid policy that will achieve more with fewer resources.

The Aid Management Policy will serve as a strong foundation to facilitate dialogue between government and DPs, considering the pressing needs of Transition, and to minimize the impacts of declining aid and military spending. Aid will continue to be an important source of financing as Afghanistan pursues its long term vision of becoming self-reliant. Therefore, policy guidelines and actions are required for stronger management by all actors in the country, to ensure optimal allocation of aid and maximum impact on growth and poverty

reduction. The overall Policy, made up of 26 specific policies, will allow the Government to strengthen mechanisms for managing its partnerships with DPs.

## **Application and Scope**

The AMP applies to all donors and development partners of Afghanistan. Its policies also apply to all government departments and agencies at both the centre and at sub-national levels.

The Government recognizes the important roles played by NGOs and CSOs in Afghanistan, in promoting the rights and participation of citizens, in monitoring Government performance and holding it accountable; and in service delivery. Where NGOs and CSOs assume a service delivery role, such assistance should be in line with NPPs and sectoral plans so as to maximize impact and avoid duplication and fragmentation.

Aid for humanitarian purposes is not subject to the administrative provisions of the AMP although any humanitarian assistance provided must be in line with overall government policy intentions. Humanitarian aid, should as far as possible utilize country systems, and be in line with international 'Good Humanitarian Donorship Principles'.

## **Objectives**

The main objectives of this policy are to:

1. Improve the effectiveness of development cooperation through greater government ownership and leadership;
2. Strengthen economic management by increasing flows of development assistance through the budget;
3. Coordinate off-budget flows;
4. Operationalise commitments of aid effectiveness within the Tokyo Framework through a process of mutual accountability;
5. Increase transparency and accountability within the Government, between the DPs and the Government and the citizens of Afghanistan in the management of development cooperation.

Moreover, the policy will also provide clear direction for GIRoA and DPs to:

- Help deal with Transition impacts
- Pave the way for a successful decade of Transformation
- Support GIRoA's vision of becoming self-reliant, and
- Test New Deal aspirations in the course of working to meet Tokyo Framework commitments.

GIRoA recognizes that implementation of the Aid Management Policy will not be without challenges. In order to effectively implement the policies and actions, there is a dire need for strong political will and leadership. It will require commitment by both GIRoA and all DPs to work together and build the capacity needed for the implementation of these policy recommendations. DPs will have to honour their international commitments on aid effectiveness and both parties the mutual commitments agreed to in the Tokyo Framework.

GIRoA and DPs collectively agree on all indicators of aid policies measuring the impact, efficiency, relevance, sustainability, accountability, and Afghan ownership of aid, as well as the use of Afghan human and material resources. The AMP Implementation and Monitoring Framework (Annex C) will be used on an annual basis by the Aid Management Directorate at DGB of the Ministry of Finance, in collaboration with DPs, to measure compliance with the aid management policy.

### **Linkage to TMAF**

The Tokyo Conference (July 2012) is a milestone in the development history of Afghanistan as it laid down the new basis of relationship between the government and the international community for the transition and the transformation decade. The relationship is articulated in the form of Tokyo Mutual Accountability Framework (TMAF) which is likely to guide the actions of both partners in future. The International Community cemented the mutual relationship with commitment of US\$ 16 billion by 2015 and continuing the similar levels of funding thereafter in the decade. The release of funding, however, in the spirit of mutual accountability, is dependent on the government meeting its commitments. The TMAF also reiterates the commitments of the Kabul and other conferences. The most important task before the government today is to implement its commitments so that funding from donors can flow-in without any problem.

While the TMAF fixes the larger contours of the commitments of the government and the international community, the Aid Management Policy (AMP) sets out the GoA's approach to manage the delivery of development aid. One of the commitments of the international community under TMAF is to approve the AMP by December 2012. The AMP addresses key issues of fiscal management, government capacity, and alignment of development aid with Afghanistan's development priorities, transparency and accountability. The AMP is, therefore, inextricably linked to the commitments made through the Tokyo Mutual Accountability Framework.

The Tokyo Conference participants, noting the importance of the delivery of assistance through adhering to the principles of aid effectiveness, emphasized that they cannot continue "business as usual," and must move from promise to practice. Both parties have therefore agreed to work together in the longer term on the broader commitments to aid effectiveness set out in the AMP. Delivery on the TMAF commitments will be underpinned by adherence to the AMP. As such the MoF has a coordinated approach to implementing the TMAF commitments, implementing the AMP, and monitoring progress on the TMAF and all other priority policies in the AMP.



## **Chapter Two**

### **The Policies**

#### **Introduction**

Chapter Two presents 26 specific policies in 7 prioritized thematic areas to address the issues and challenges related to aid in Afghanistan. These prioritized thematic areas are: 1) Afghan-led Development, 2) Capacity Development, 3) Alignment and Use of Government Systems, 4) Coordination and Harmonization, 5) Accountability for Results, 6) Transition Issues, and 7) Sustainability of Development. Each policy is preceded by explanatory text.

Due to the non-binding legal nature of these policies all references to ‘will’ and ‘shall’ shall be construed to mean that all parties will use their ‘best endeavours’ and take all the reasonable courses they can to implement the policies.

#### **Afghan-led Development**

##### **Policy 1 - NPPs Implementation**

GIRoA aims to finalize, and endorse at the Joint Coordination and Monitoring Body (JCMB), NPPs as a single development plan for Afghanistan. The National Budget will serve as the main vehicle for ensuring transparency and accountability of NPPs budget allocation. The integration of the NPPs into the national budget will improve planning and will allow monitoring and reporting of development results. DPs will support the NPPs as a single programme framework. This will obviate the need for parallel programme development. DPs will align at least 80% of their development assistance with the NPPs and should gradually close down all programs that fall outside the NPPs framework.

GIRoA shall plan to implement the NPPs according to frameworks, timelines and deliverables agreed with ministries. DPs shall support the implementation of the NPPs.

##### **Policy 2 - On-Budget Financing**

At the Kabul Conference, donor agencies pledged to increase the portion of their assistance that is channeled through the national budget to 50%, in accordance with the London and Kabul Communiqués and the Tokyo Mutual Accountability Framework. GIRoA will aim to mobilize a larger share of aid through bilateral modality and will seek an optimal balance of other modalities (i.e. Trust Funds, Project Support, SWAPs etc.) depending on its financing needs. The increasing use of the national budget, through increasing capacity of Government controls, will allow the GIRoA to build the capacity and efficiency of its Public Financial Management (PFM) planning and other country systems and will enhance its accountability to the Afghan public. The use of the national budget also helps both the

GIRoA and the DPs to improve their understanding of the risks and will help devise strategies to effectively mitigate risks, build confidence and reduce transaction costs. The GIRoA recognizes that fiduciary risks differ among ministries and sub-national administrations. Therefore, any new risk assessment will evaluate those ministries and agencies with large donor funded programs as a priority, while it will take more time to fix those where fiduciary capacity and integrity is weaker.

DPs shall implement the commitment to achieve at least 50% on budget in accordance with the London and Kabul Communiqués and the Tokyo Mutual Accountability Framework.

### **Policy 3 - Parallel Structures**

Parallel structures continue to exist and execute technical and line management functions with adverse affects on capacity development. GIRoA recognizes the need for a process, tailored to an inclusive program of capacity development, through which responsibilities will be gradually transferred to core structures of the government.

DPs will aim to gradually, to the greatest extent possible, reduce existing Project Implementation Units (PIUs)/parallel structures by transferring their functions and responsibilities to core structures of the Government.

Until PIUs are institutionalized, DPs shall aim to develop capacity of the GIRoA departments in which they are situated or associated.

GIRoA and DPs will adopt a phase-out strategy for PIUs consisting of creating a single Grant Management Unit (GMU) in every ministry and key provincial offices to manage donor assistance.

In conjunction with security transition, DPs will aim to work with GIRoA to eliminate parallel structures, to include Provincial Reconstruction Teams (PRTs) and District Support Teams (DSTs), and identify applicable responsibilities and activities of these structures that should transition to Government control.

### **Policy 4 - Risk Management**

Risk aversion as regards the use of country systems has been pervasive in utilization of foreign aid in Afghanistan. Commonly cited risks associated with the use of country systems include corruption, mismanagement of resources, and the lack of absorptive capacity. GIRoA will seek to conduct a Joint Risk Assessment and implement reforms to reduce risks and build confidence of DPs in the PFM capabilities of the government. DPs will be expected to support Joint Risk Assessments and only carry out additional assessments where justified i.e. where the Joint Risk Assessment does not meet all of a donor's legal or internal policy requirements.

GIRoA and DPs will seek to manage fiduciary and other risks through a Joint Risk Management Assessment and other mechanisms developed. GIROA will seek to reduce fiduciary risks among ministries and sub-national governments by tackling corruption, improving the management of resources and addressing the lack of absorptive capacity

### **Policy 5 - Fragility and Context Specific Approaches**

The New Deal recognizes the need for new ways of engagement in fragile situations to build effective states and peaceful societies. As part of its commitment to implement the New Deal, GIRoA aims to conduct periodic assessments to identify the causes and features of fragility. This will ensure that the long term development strategy and the NPPs will address short, medium, and long term peacebuilding and statebuilding priorities.

DPs shall commit to focusing on new ways of engaging with the GIRoA to support Afghan led and Afghan owned transition out of fragility, including support to the preparation of a 'Fragility Assessment'.

DPs will review their country programmes in respect of the New Deal commitments.

GIRoA will partner with DPs in an effort to pilot the implementation of the New Deal in Afghanistan.

## **Capacity Development**

### **Policy 6 - Building Effective State Capacity**

GIRoA recognizes that capacity development is a long term commitment that should be built around local demand and should support local ownership. The New Deal recognizes the need for adopting a coherent approach to capacity building. The GIRoA aims to increase the funding and use of pooled funding mechanisms such as Afghanistan Reconstruction Trust Fund (ARTF) and other existing mechanisms for effective capacity development.

In accordance with the joint commitment to building mutual TRUST, as outlined in the New Deal, GIRoA and DPs shall focus on building effective national institutions to build the capacity of the state in a coherent approach including addressing institutional and organizational development, policy development, merit-based civil service appointments, administrative reforms and public financial management, strengthening sub-national administration and increasing accountability of public officials.

## **Policy 7 - International Technical Assistance (ITA)**

Technical Assistance (TA) largely remains donor-managed, used as a short term measure to create an adequate level of capacity, to provide specialist expertise and to satisfy internal institutional demand. Mechanisms for TA coordination at the line agencies are lacking, capacity transfer is limited, there is duplication of efforts, and high financial cost. GIROA aims to manage TA in a way that is cost effective and builds local capacity. It is thus desirable that all TA should report to the government and should be paid, where possible, through the treasury system, unless the TA is provided for organizations operating independent of the government e.g. through civil society organizations, human rights agencies, political parties etc.

GIROA will develop a national policy on the use of TA, reflecting GIROA needs. Donors will support government-established mechanisms for the provision of TA such as the Civilian Technical Assistance Programme (CTAP) and Capacity Building for Results (CBR)<sup>5</sup> programme.

GIROA and DPs shall ensure TA builds local capacity, transfers knowledge and skills, and have individual time-bound exit strategies.

## **Policy 8 - National Technical Assistance (NTA)**

National Technical Assistance (NTA) has been used to fill line functions and execute activities that otherwise exceeds the capacity of the civil service. The need for NTA will continue to exist particularly in light of the recent commitment of the GIROA and its partners to implement security transition as well as the National Priority Programs. The GIROA aims to devise a mechanism to use the national budget, and pooled funding mechanism, for recruitment of NTAs and harmonize their use to reduce transaction costs and avoid duplication of efforts.

DPs and GIROA will aim to better coordinate TA to ensure harmonized capacity development and reduce duplication of effort. Ministries' own capacity development (CD) plans should be used as the basis for harmonizing TA, and also used as a shared basis for monitoring and evaluation (M&E)

GIROA and DPs shall promote the utilization of Afghan nationals and diaspora in providing TA.

## **Policy 9 - GIROA's Absorptive Capacity**

GIROA is committed to continue budget reforms (i.e. program based budgeting and provincial budgeting) and improved long term development of civil service capacity to improve absorptive capacity at line agencies and their administrative sub units.

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<sup>5</sup> Technical Assistance (TA) refers more narrowly to the provision of personnel and placement of consultants in positions where they advise and provide expert support to counterparts in line agencies.

GIRoA will implement national reforms and build national and sub-national state capacity to expedite budget execution.

Both GIRoA and DPs shall improve institutional knowledge of budget processes, and its transfer, within their organizations at national and sub-national levels.

GIRoA will take concrete steps, and will request the support of the DPs, to increase and broaden government ownership of public sector management training.

GIRoA, will invest in development of higher education and vocational and technical training as the principal source of new capacity, and will request the support of DPs in this endeavor.

## **Alignment**

### **Policy 10 - Alignment with NPPs**

Under the NPPs framework, the GoIRA has developed results-based programs with clear outcome based targets and financing needs and will continue to refine and prioritize these programs. DPs will aim to base their country programs on the priorities identified in NPPs in line with their commitment of aligning 80% of aid with the NPPs, in accordance with the Kabul Communiqué and the Tokyo Mutual Accountability Framework.

GIRoA and DPs will aim to continue working together to achieve greater alignment with the programmes, projects, approaches and deliverables of NPPs in both existing and new projects to progressively achieve the commitment of aligning 80% of aid with the NPPs, in accordance with the Kabul Communiqué and the Tokyo Mutual Accountability Framework.

GIRoA shall provide clear guidelines on achieving alignment to both government departments and DPs that include a clear and comprehensive definition of alignment.

DPs will commit to joint streamlined reviews of existing projects to determine level of alignment and agree plans of action to achieve necessary alignment and will progressively wind down programs which are inconsistent with the NPPs.

GIRoA will regularly analyze and report on overall progress with alignment targets including in the annual Development Cooperation Report.

### **Policy 11 - Off-Budget Financing**

GIRoA currently has little control or accountability over off-budget financing. GIRoA and DPs are therefore working to better coordinate and account for off-budget financing as it relates to the Government. A consultation mechanism will allow government agencies to take part in review, appraisal, implementation and monitoring of such projects. By doing so, off-budget projects will be included in the budget statement improving visibility and recognition by the Afghan government, Parliament and civil society. GIRoA requests all donors to sign

Financing Agreements (FAs)<sup>6</sup> with MoF for all projects excluding philanthropic activities. According to the Section 9/9 and 10/1 definition of public assets in the PFM law, all public assets, in this case grants provided to the government, shall be reflected in a written agreement with MoF.

DPs shall consult GIRoA (both MoF and line ministries) in the formulation and implementation of off budget programs in line with NPPs.

Within the limits of the legislation that governs their aid programs, DPs shall agree to sign Financing Agreements with the MoF for all projects to enable GIRoA to guide, facilitate and monitor all development investments.

### **Policy 12 - Aligning Budget with NPPs**

GIRoA recognizes the need to improve the budget process so it is consistent with its medium term development framework including at sub national level with the priorities identified in the Provincial Development Plans (PDPs) and Provincial Strategic Plans (PSPs). Lack of predictable and transparent information about aid flows, particularly over the medium-term, has led to the practice of retrofitting budget planning to donor planned and donor funded projects. In addition, there are high transaction costs for GIRoA when donors use multiple disbursement and monitoring arrangements.

MoF and MoEc will coordinate to ensure the consistency of the budget process with the NPPs framework.

Line ministries will firmly base their budget requests on the NPP framework. All projects with line ministries and government bodies funded through off and on budget modalities will be signed off by the MoF, though line ministries will co-sign the technical agreements in a tripartite arrangement.

MoEc, MoF, IDLG and line ministries will promote internalization of NPPs into the planning and results-based monitoring of provincial offices and coordinate through existing Provincial Development Plans (PDP) and Provincial Strategic Plans (PSP) mechanisms.

GIRoA will implement and monitor the provincial budgeting approach, which DPs shall aim to financially support.

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<sup>6</sup> The term “Financing Agreement” refers to the documents that provide financing and sponsor support for a project or program. This term covers all types of financing instruments including grants and loans.

## **Coordination and Harmonization**

Government is dealing with a multiplicity of donor arrangements and mechanisms to implement projects. Progress on harmonization is possible when joint approaches to project implementation and funding arrangements are considered. Project level harmonization can also be fostered through coordination and information sharing among relevant stakeholders.

### **Policy 13 - Division of Labor (DoL) among Development Partners**

The proliferation of donors in some sectors imposes burdens on government capacity, and leads to unbalanced development with overcrowded and under-resourced sectors. GIRoA will aim to reduce the number of sectors in which a donor agency can operate based on DPs comparative advantages and expertise. Both the government and DPs support a more coordinated approach both programmatically and geographically. In 2003-05, GIRoA implemented this approach and required donors to contribute at least \$30 million to a sector in order to move into a fourth sector. In consultation with DPs, GIRoA will explore other mechanisms such as triangular partnership, delegation of responsibility and on-budget modalities to address this issue.

GIRoA will work with DPs to develop and present a coherent strategy for sector-based DoL. During the fiscal year 1392, GIRoA and DPs shall mutually agree on the criteria for DoL, including sectors and project size, with timelines for gradual implementation.

### **Policy 14 - Aid Coordination and Harmonization Mechanisms**

Most of the existing coordination mechanisms lack the ability to conduct high quality dialogue that is more policy focused and action-oriented and less process oriented. Likewise, development coordination is more prevalent at the national level while at sub-national levels such mechanisms are not well developed. Moreover, the membership of these forums is drawn mainly from DPs and the line agencies. The GIRoA recognizes the need to streamline donor coordination and to involve all actors in planning and policy formulation through periodic consultation. GIRoA also aims to enhance the role of Civil Society Organizations (CSOs) and media to conduct independent analysis of public spending and to hold both the government and donors accountable for development results.

GIRoA work together with DPs to establish streamlined and effective mechanisms to coordinate development assistance at sub-national levels between Provincial Governor's Offices and PRTs (until phased-out) and NGOs.

GIRoA and DPs shall continue to further improve effectiveness of coordination mechanisms, including improvements to the overall national planning, budget and aid management system to improve coordination within GIRoA and between GIRoA and DPs. GIRoA and DPs will use these fora for promoting transparency and timely sharing of information.

GIRoA and DPs will aspire to implement the international principles on effective development cooperation and engagement in fragile situations, according to each DP country's agreements at various international fora for aid effectiveness. GIRoA and DPs will aspire to and participate in relevant surveys and evaluations on these matters.

### **Policy 15 - Joint Analysis**

Contradictory development prescriptions, divergent development goals, different administrative and procurement procedures and reporting requirements are examples of aid anomalies that render aid less effective. In contrast, where joint action has taken place, particularly in the form of pooled funding arrangements and joint diagnostic and research work, cooperation and coordination among actors has increased and duplication of efforts has been avoided. GIRoA and DPs will aim for joint analysis to develop a shared and coherent basis for development dialogue. With the approval of NPPs, GIRoA and DPs will seek to follow a program approach to development.

GIRoA and DPs will aim to make increased use of diagnostic and research tools such as joint assessments in fiduciary risk and other priority areas agreed between GIRoA and DPs.

## **Accountability for Results**

### **Policy 16 - Financial Oversight and Accountability**

The Tokyo Mutual Accountability Framework encourages GIRoA and DPs to be accountable to one another in using and managing development aid. GIRoA will improve its capacity to conduct effective financial oversight of all donor funded projects and promote accountability and transparency of public finances.



GIRoA will aim to reform Public Financial Management to improve accountability and transparency of public finances through implementing the PFM roadmap.

DPs will aim to limit the practice of sub-contracting in all specialized and labor-intensive projects to only one vertical level of sub-contracting within the legal limits of their respective countries to reduce overhead costs and improve transparency.

Contracts and sub-contracts under DP-funded programs are expected to respect Afghan duty and tax rules. It is acknowledged that specific arrangements as mutually agreed between GIRoA and DPs may apply, and GIRoA will respect such mutual agreements

### **Policy 17 - Development Framework Agreements**

DFAs and Performance Assessment Frameworks (PAFs) will enable the government and DPs to mutually assess performance, analyzing activities that went well or not so well and developing corrective strategies, as necessary. PAFs will include clear indicators and targets out of international agreements, local commitments and other inputs from the government.

In line with commitments for mutual accountability from Bonn and Tokyo conferences, GIRoA and DPs shall jointly develop and agree to donor-specific DFAs.

Although legally non-binding, GIRoA and DPs shall base their development partnership on the jointly agreed terms of the DFA.

### **Policy 18 - Accountability and Results Mechanisms**

GIRoA recognizes the valuable contribution of parliament, CSOs, media, academia and private sector to the development process and wishes to increase the effective demand for good governance. The oversight role of the parliament and the citizens can be enhanced by deepening their engagement in policy and planning processes. Comprehensive, timely and transparent information on aid will promote their role and will ensure that reciprocal accountability exists between donors and the government. GIRoA aims to improve the quality and coverage of public finance reports to report on the use of both domestic and external resources. A harmonized Monitoring and Evaluation (M&E) Framework, whilst difficult to achieve, will allow the government and the DPs to collectively account for development results. As part of its commitment to implement the New Deal in Afghanistan, GIRoA will develop indicators to measure progress on Afghanistan's transition from fragility to self-reliance.

GIRoA will reinforce the parliamentary system to track accountability and encourage participatory approaches for Afghan civil society and media to assess development progress.

GIRoA will conduct annual Development Cooperation Dialogues with all DPs and publish the Development Cooperation Reports. GIRoA and some specific DPs will aim to conduct detailed Portfolio Reviews in addition to DCDs.

GIRoA will reform and introduce the Development Assistance Database (DAD) as the central aid information management system. In line with the Busan Partnership for Effective Development Cooperation, DPs will aim to support GIRoA to effectively manage aid information. DPs will strive to provide timely and accurate reporting on their aid activities and register them into the DAD.

GIRoA will enhance access to Information, improve performance of the Open Budget Index (OBI) and produce the Citizen's Budget. GIRoA and DPs will aim to participate in International Joint Evaluations on Aid Effectiveness and Mutual Accountability. DPs intend to adhere to international transparency commitments such as International Aid Transparency Initiative (IATI), in accordance with the DP country's agreement/involvement in such commitments.

GIRoA and DPs will work together to build upon the Tokyo and Kabul Process framework to track development results.

GIRoA will work towards strengthening the M & E framework for monitoring progress on the deliverables of the NPPs and all development results.

GIRoA, in line with the commitments of the Busan Partnership, will deepen its engagement with all stakeholders in policy formulation and implementation.

GIRoA will establish effective coordination mechanisms with DPs at the global level and promote South-South and triangular cooperation.

## **Transition Issues**

### **Policy 19 - Transitioning to Longer Term Development**

Aid volatility and a lack of predictability undermine GIRoA capacity to prioritize its longer-term development objectives. The typical short-term program cycles in Afghanistan, often one to two years at the most are often not complemented by the necessary partner spending forecast or commitment to the medium – longer term. This makes it difficult to focus on tackling longer-term structural change, and the underlying conflict drivers. As Afghanistan moves through Transition and into the Transformation Decade, GIRoA and DPs will aim to shift toward longer-term and more sustainable programs, and GIRoA welcomes entering into long-term strategic partnerships with its DPs to support governance, development and security objectives.

DPs will use their best endeavour to provide clarity over the provision of future development aid especially in the case of GIRoA's basic services, through mechanisms such as the Development Cooperation Dialogues.

DPs will use their best endeavour to provide timely forecasts of their likely commitments or intents for 3-5 years to enable GIRoA to plan its activities for the medium to long term. GIRoA will recognize that in some cases these are best effort forecasts and not necessarily commitments that may require the approval of DP legislatures.

GIRoA will define types of development aid and DPs shall use their best endeavours to draw a clear distinction between expenditure on security and aid for development and humanitarian purposes<sup>7</sup>.

### **Policy 20 - Geographically Balanced Aid**

DPs and GIRoA will both seek a greater understanding of the effects of exclusion from the benefits of development and its possible consequences post transition. GIRoA and DPs will seek to shift towards geographically balanced aid delivery that addresses nationwide priorities as per the NPP framework. GIRoA and DPs will be better able to address issues of insecurity, accessibility, equity and national integration and design appropriate interventions through the NPPs.

GIRoA and DPs will seek to shift to geographically balanced aid delivery that addresses nationwide priorities as per the NPP framework, with the understanding that security situations may preclude some of these goals.

GIRoA will report on results of this approach through the national budget statement which will include planned outcomes, outputs and expenditures<sup>8</sup>.

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<sup>7</sup> Humanitarian Assistance that is not related to episodic disasters is part of Afghanistan's social safety net and will be classified as development assistance. The provision of humanitarian assistance should be need based and delivered through existing national mechanisms.

<sup>8</sup> Some external budget expenditures are inflated because of security related expenditures in insurgent affected areas. Therefore, information on costs alone is not sufficient enough of an indicator of regional equity.

## **Policy 21 - Alternative Financing Modalities**

Non traditional sources of development finance are growing in importance and GIRoA will seek to take advantage of these development funds.

GIRoA will seek to offset the challenges of a potential decline in aid and the negative impacts of Transition through the development of non-traditional forms and modalities of financing.

Recognizing that the private sector is one engine for sustainable growth, GIRoA and the International Community shall enhance the infrastructure and regulatory frameworks for development of the private sector during and beyond Transition, to enable it to also be an alternative source of financing for service delivery.

## **Policy 22 - Mechanism to Mitigate Risks to Economy**

GIRoA will seek to mitigate risks to the economy caused by the projected withdrawal of some development actors, especially at sub-national levels. There is much that can be done to strengthen the tax collection systems to generate greater domestic revenue. Investment in revenue generating sectors is also crucial for Afghanistan to achieve food security, improve livelihoods, poverty reduction and widespread job creation.

DPs will support GIRoA as it develops key revenue generation sectors: e.g. Trade, Agriculture and Mines.

GIRoA will seek to strengthen its tax collection systems to generate greater income for public services at national and subnational levels.

With the projected withdrawal of some development actors at sub-national levels, DPs will support GIRoA as it works to mitigate economic impacts, particularly of closing PRTs, on the local economy.

GIRoA with the support of DPs will examine the feasibility of Social Safety Net Programs to mitigate adverse socio-economic impacts of withdrawal of development projects.

## **Sustainability**

### **Policy 23 - Operation and Maintenance Cost Management**

The Government is concerned about the sustainability of development projects in a number of areas. GIRoA will seek to close the fiscal gap by 2025 through delivering on key reforms in governance and by maintaining a careful and disciplined investment strategy in key economic sectors. It is also important to ensure that operations and maintenance budgets are brought under control, and that key development investments meet strict sustainability criteria.

GIRoA will develop a comprehensive Operation and Maintenance (O&M) Policy to ensure all new programs and projects contain O&M financing plans for sufficient time after the project implementation ends.

DPs will seek to identify the O&M costs of assets before they are registered and transferred to GIRoA. GIRoA will similarly identify O&M costs of assets that have been previously transferred to GIRoA.

For all new projects, DPs will aim to identify the O&M cost of the assets, with the relevant body before the project that builds them is approved.

GIRoA will include O&M costs in the Medium Term Expenditure Framework (MTEF) and will incorporate them into the budget framework to have a reasonable estimate of recurrent costs of development activities.

#### **Policy 24 - Sustainability of Development Investments**

GIRoA recognizes the need to ensure that all aid inflows are geared towards ensuring the sustainability of development results. GIRoA and DPs will aim to ensure all development projects involving the government are sustainable investments with sustainability criteria, including having a clear exit strategy.

#### **Policy 25 - Sustainable Development**

The government is committed to the sustainable development of Afghanistan, ensuring an integrated approach to the consideration of:

- social inclusion, recognizing the needs of every citizen of Afghanistan;
- effective protection and enhancement of the environment;
- prudent use of our natural resources; and
- Promoting high but sustainable levels of economic growth and employment.

GIRoA will develop a strategy, common guidelines and a framework to address issues of sustainable development in aid mobilization and implementation. DPs will aim to support this endeavor.

## **Policy 26 - Civil Service System and Salary Scales**

The government is acutely aware that the current level of salaries and administrative arrangements for maintaining the second civil service needs to be addressed now so that proposals can be gradually implemented.

GIRoA and DPs will aim to integrate the donor-funded “second civil service” with the regular government civil service, whilst making provision through the national budget for appropriate future support by contracted staff and local consultants.

DPs may provide salary support to GIRoA through the national budget in prior agreement with MoF and based upon current government policy.

DPs will support GIRoA as it develops an approach and appropriate mechanisms that addresses salaries and benefits to attract and retain qualified employees within GIRoA.

## **Chapter Three**

### **Implementation Arrangements**

#### **Introduction**

This chapter outlines how the aid policies and commitments will be translated into actions on the part of the GIRoA, its DPs and other stakeholders. It also outlines institutional arrangements and coordination structures through which the aid policy will be executed.

The Implementation and Monitoring Framework for the AMP (Annex C) sets out the intended actions to ensure implementation, along with time scales and indicators to monitor progress. To this end, the actions are drafted to be explicit, measurable but also flexible where required. The actions set out in Annex C reflect an understanding of what works in Afghanistan and what has not worked so well. Progress in some areas of aid effectiveness has not been as fast as the government would have liked. In addition, in the last year both the government and DPs now believe this can be remedied in part by working closely together on specific initiatives and priority actions.

The implementation plan therefore reflects the commitment of the GIRoA to take specific actions both in the short term and over the full five year period of the policy. It also operationalizes the mutual commitments towards improving aid effectiveness made by the GIRoA and DPs in the Tokyo Framework. It requires donors to support the government implement the identified Actions and, in a number of instances, the government will wish to task DPs explicitly. This will share the burden and benefits of implementing the policy and leverage the extensive technical knowledge and resources of DPs themselves to help implement the plan. It is not simply a matter of compliance with the policy; the government wants donors to share the policy, take some ownership and reap the benefits from implementing the policy. In the context of transitioning to a phase of increasing Afghan ownership, it is more necessary than ever to work together to make aid more effective, to maximize the impact of aid on development objectives, and to achieve the common goals of a developing and self-reliant Afghanistan.

Finally, the two implementation matrices provide a tool to monitor progress of these actions and review and refine activities as implementation progresses and as new tools and information becomes available.

#### **Aid Coordination Arrangements**

The existing system for multi lateral aid coordination in Afghanistan was set up following the London Conference in 2006. The Conference established the JCMB to support delivery of the Afghanistan Compact and the Afghanistan National Development Strategy (ANDS) through an integrated approach. The JCMB therefore sits atop the joint government development partner coordination mechanism under the leadership of the two Co-Chairs. Meetings are

focused on a limited number of priority issues. A key responsibility for meetings of the JCMB as a whole is to ensure that the political, security and development dimensions of the ANDS and Compact are brought together under an integrated approach.

Underneath the JCMB are the three Standing Committees (SCs). The SCs cover the three pillars of the Compact and ANDS, namely: (1) Security, (2) Governance, Rule of Law and Human Rights, and (3) Economic and Social Development. Each standing committee is led by an Afghan Government co-chair and an international co-chair. It remains the intention of both co-chairs that the SCs focus on policy formulation and programmatic coordination, and help pursue better design of donor projects to support the NPPs as well as a higher degree of harmonization of donor procedures.

The budget process also uses the ANDS three pillar arrangement and is broken down by ANDS Sectors, line ministries, programs, projects and main economic categories. This multi-segment breakdown is used for budget assessment, approval, budget execution reporting and budget implementation monitoring during the year, emphasizing the primacy and importance of the budget process.

Whilst the Kabul Conference ushered in the Clusters and the NPP process there has to date been little attempt to align these clusters to the existing ANDS pillars. Unfortunately this means that the links between the Budget and the NPP 'clusters approach' are limited, leading to policies being expressed as priorities without being costed adequately or due recognition of the resources available to Afghanistan. Aligning NPPs with the Budget process is both essential to provide a framework for funding these national priorities and would encourage donors to support them. NPPs should also be clearly aligned to the program structures being developed in ministries.

Following approval of the AMP, and a decision on whether or how the ANDS will be revised, it will be essential to review the current coordination arrangements in order to develop a consistent and harmonized approach to the policy, planning, and budget process.

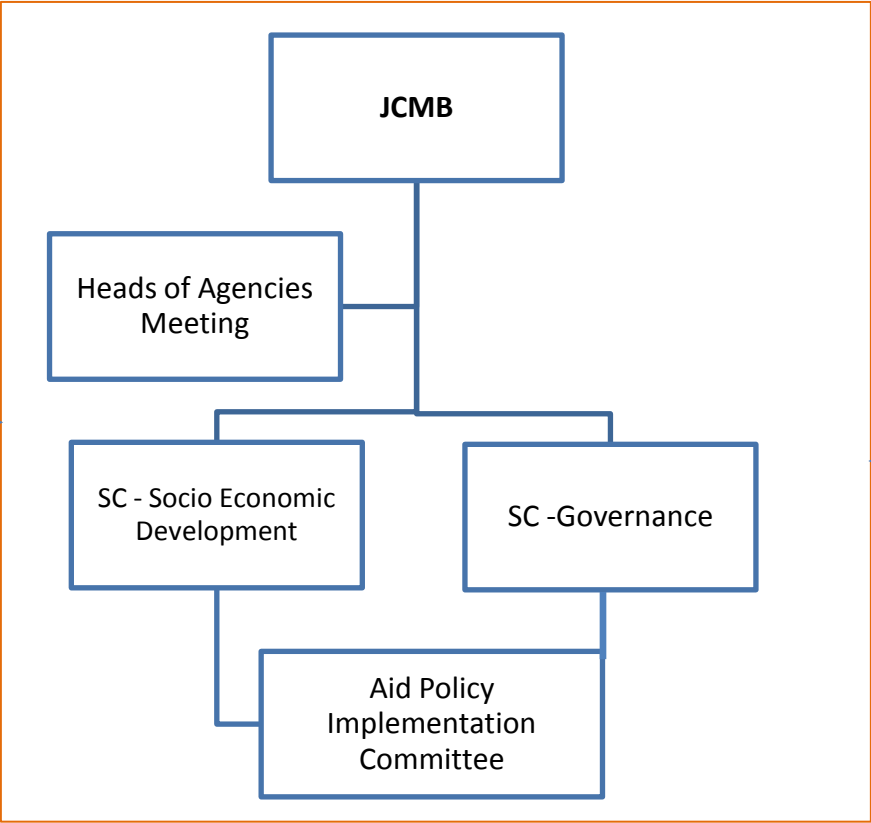
Figure.1 below shows the current arrangements for aid coordination. The diagram differentiates between, multilateral coordination mechanisms, bilateral aid coordination mechanisms and intra-government coordination. The key responsibilities for multi lateral coordination are as follows:



**Bilateral Aid Coordination**



**Multilateral Aid Coordination**



**Intra Government Coordination**



## **Multi-lateral Coordination**

### **Heads of Agencies Meeting (HoAM)**

This high level meeting, led by the Ministry of Finance, will be a platform for high level policy discussion of issues related to TMAF and AMP implementation. The HoAs meeting is expected to review progress of TMAF commitments and AMP policies, discuss issues and conclusions presented by the APIC, and chart the way forward. The membership of the HoAs meeting will include high level representatives of development partners. The meeting will be organized on monthly basis preferably after the APIC.

### **Aid Policy Implementation Committee (APIC)**

This committee comprising of a selected number of donor representatives (to be decided) at the heads of agency level will be responsible for discussing aid priorities and modalities, aid effectiveness related issues, measures, mechanisms, tools, and monitoring implementation of AMP. Their conclusions will be presented to the HoAs meeting. The Aid Management Department (AMD) will function as a secretariat to provide the necessary capacity to monitor progress on AMP and ensure implementation of the agreed approaches by all line agencies and DPs. In performing this role, the APIC will form specific committees to be able to discuss policy issues in a smaller sitting and make recommendations to the HoAM.

## **Intra Government Coordination Arrangements**

### **Inter Ministerial Committees**

The regular Council of Ministers Inter Ministerial Committee Structure remains the principal mechanism for policy management and coordination at Cabinet level. The composition and functions of individual committees are established by Presidential Decree.

### **TMAF Government Coordination**

In addition, a new dedicated mechanism has been established to facilitate implementation and monitoring of the TMAF commitments. Led by MoF, a ministerial level TF Steering Committee is responsible for review and endorsement of government plans as well as for taking corrective action in case bottlenecks to TMAF implementation arise. A deputy minister level TF Technical Committee is established to oversee the preparation of plans and the implementation of TMAF commitments. The TF Technical Committee is also tasked with reviewing the progress of line ministries responsible for implementation of the government commitments and to make recommendations to the TF Steering Committee.

## **Bilateral Coordination Arrangements**

### **Development Cooperation Dialogues (DCDs)**

GIRoA will hold Development Cooperation Dialogues (DCDs) with all DPs and an annual basis. The DCD will provide a platform to discuss policy and program priorities, suitable financing modalities to support mutual priorities, review progress on aid effectiveness indicators and other commitments made at international and local conferences at different junctures. DPs will support DCDs and will implement the decisions reached.

### **Core Donor Consultations (CDC)**

These meetings held annually prior to budget hearings, and will include DPs and budget specialists from MoF on behalf of the line ministries who utilize on-budget modalities of financing for their development programs. DPs will provide forecasts of their intended contributions and MoF will present the financing needs of the line agencies consistent with NPP priorities. DPs will commit funding, if possible, and specify suitable on-budget financing modalities to support these priorities.

### **Annual Portfolio Reviews (APR):**

The GIRoA will hold annual portfolio review with a selected number of DPs to assess progress of all development projects involving the government. Including representatives from the line ministries, the APRs will allow the GIRoA and DPs to jointly review progress of individual projects/program, to identify implementation challenges and to formulate overall conclusions and recommendations for future projects/programs.

## **Government Institutions Responsible for Aid Management**

GIRoA has created a legal and institutional framework that defines the responsibilities of government agencies in managing aid. The principal Government institutions responsible for managing development cooperation are:

- Ministry of Finance (MoF) is the lead agency responsible for coordination, implementation, monitoring and evaluation of the AMP. It is also responsible for mobilizing financial resources and managing them in a manner that promotes the development strategy of Afghanistan.
- MoF, through its Aid Management Directorate (AMD) at Directorate General Budget (DGB) and in close coordination with Line Ministries, will lead negotiations, allocations and reporting of development cooperation. AMD is also responsible for monitoring progress and reporting on the implementation of the AMP.
- MoF, in close coordination with Line Ministries, is also responsible for coordinating the planning process leading to the formulation of the NPPs. Once the NPPs have been approved and operationalized, the responsibility for monitoring and reporting on the implementation of the NPPs will be carried out by both MoF at the output level and Ministry of Economy at the outcome level respectively.
- MoF and Ministry of Foreign Affairs (MoFA) are jointly responsible to conduct dialogue on policies and programs with the donor community. Ministry of Foreign Affairs (MoFA) is responsible to negotiate and conclude international treaties and strategic partnership agreements with donor countries. Development Framework Agreements (DFAs) and Financing Agreements (FAs), however, will be negotiated and signed by the Ministry of Finance (MoF).
- Ministry of Economy (MoEc) is responsible for guiding the planning process to align with the national budget. MoEc will ensure that budget requests made by line ministries and independent government agencies are in compliance with the priorities of the NPPs and their specific deliverables.

## **Priorities for Action**

The government recognizes that the AMP will need to be prioritized so that the policy can help both the government and DPs reach some immediate key objectives. The drivers of prioritization are:

- Presidential Decree No. 45 dated 26th July 2012 of the President of the Islamic Republic of Afghanistan
- Tokyo Mutual Accountability Framework (2012), and
- International Commitments made under the Busan Partnership for Effective Development Cooperation and the New Deal for Engagement in Fragile States

Reform priorities are summarized in the TMAF Implementation Framework agreed with the International Community. Those priorities that relate to Aid Effectiveness are set out in the Implementation and Monitoring Framework Matrix (Annex C).

### **Annual Assessment of Progress**

It is the government's intention to conduct an annual assessment of progress on the AMP led by GIRoA with independent technical support.



## **Annexes**

### **A: Background and Context**

#### **Macro-economic context of aid in Afghanistan**

Since 2002, almost the entire Development Budget and, on average, up to approximately 52% of the Operating Budget of Afghanistan has been financed by foreign aid. A total of US\$ 90 billion has been pledged in external assistance (2002-2013), of which US\$ 69 billion has been committed (2002-2011) and US\$ 57 billion disbursed (2002-2010). The aid-to-GDP ratio that once stood at 100% currently stands at 71%. Domestic revenues account for approximately 11% of GDP. 82% of the external assistance disbursed from 2002-2010 was utilized outside government systems, of which a large percentage (51%) were devoted to security-sector investments. The remaining 49% has supported development spending for all other sectors.

Foreign aid has achieved much in terms of development over the past decade. Improvements in the economic sphere include year-on-year economic growth, currency reforms and increased domestic revenue from a number of different sources. In addition, initiatives have been taken to strengthen public finance management (PFM), create an annual national budget based increasingly on program-based budgeting, implement reforms to enhance accountability and introduce procurement regulations aimed at meeting international standards. In social and human development, vast improvements have been seen in health care (e.g. immunization), expansion of primary education nationwide and community-based rural development. Infrastructure improvements in road construction, transport networks and telecommunications are evident. We see a greater capacity of the civil service and an expanding and increasingly active civil society. Training of Afghan security forces continues. Some of these indicators therefore show that aid has to a certain extent served as a valuable instrument for development. However, a comparison of the development results produced so far vis-à-vis the total aid disbursed (through both off and on budget mechanisms) suggests that more could have been achieved if aid had been better targeted and managed.

Despite an average growth rate of 17% per annum since 2005, Afghanistan still remains a low-income country with a GDP per capita of US\$ 591. It remains highly dependent on aid for its operational costs and development expenditures. Afghanistan remains a fragile situation possessing a unique context that poses significant challenges for development actors to implement effective aid.

#### **Challenges to Aid Effectiveness**

There are many issues/challenges to effective aid management in Afghanistan, of which the major ones are set out below:

## **Transition Issues**

The Transition Process, where responsibility for security and increasingly development shifts from the international community to the government of Afghanistan, stands out as the most important challenge, as it is expected to create immense pressures and impacts on the economy. Analysis suggests that transition, which foresees the gradual decrease in the volume of aid until and after 2014, could cause an economic downturn. Projections suggest that real GDP growth may fall from the 9% average a year over the past decade to almost 5% during 2011-18. The biggest impact will be on fiscal sustainability, with the projected financing gap still being 25% of GDP by 2020.

At the international level, declining aid is partly caused by Afghanistan's position in the competing domestic and international priorities of donors and the persistence of the global financial crisis. At the national level, the withdrawal of foreign military forces and a reduction in local spending may increase unemployment. It may also leave GIRoA unable to bear the operations and maintenance costs required for sustaining development achievements. By 2020, all combined operation and maintenance costs are estimated to be twice the size of domestic revenues. Afghanistan will thus face increasing budget constraints over the coming years and have to reprioritize and rethink its strategies.

Experiences of other recipient nations suggest that a decrease in international military presence reduces civilian aid too, with implications for economic growth, fiscal sustainability and service delivery. Transition will thus affect the overall level of economic activity in the country. Once international troops withdraw, the economy will be affected by decreased financial flows to the public and private sectors. Underemployment may increase because the economic activities affected by declining financial inflows are relatively labor-intensive. Given Afghanistan's annual population growth of 2.8%, only limited improvement in average per capita income can be envisaged, development progress in reducing poverty may be curtailed, and precious development gains may be lost.

Furthermore, capacity constraints within revenue management entities and corrupt activities, both within government and the wider development community, could potentially hinder self-reliance. Transition will on the other hand give a greater impetus to seeking value for money, to reduce opportunities for corruption, to work towards untying of aid that will lead to a greater proportion of aid that is spent in Afghanistan. Transition also will focus government attention on reducing unnecessary waste, and focus on results-based development, seeking greater transparency and accountability.

## **Sustainability**

Sustainability is a key challenge, especially as most O&M costs are currently absorbed by donors. The high level of spending over the past decade will be fiscally unsustainable once donor funds decline. The issue is how to control and mitigate these impacts and put spending on a more sustainable path in the medium to long-term.

Aid flows outside the national systems (82%) have been vast and donors have not always consulted or coordinated with GIRoA for off-budget projects. Consequently, the sustainability of those interventions has been largely unaddressed. In addition, although CERP financing is declining, large funds have also been managed by military actors for financing quick-impact projects to win hearts



and minds and providing small-scale services that run parallel to government activities. These activities, in different ways, have deterred a cohesive approach to O&M. The absence of replacement institutional arrangements for development projects that plan for the transfer of responsibilities to Afghan authorities is widespread.

This kind of approach risks leaving Afghanistan potentially unable to take over expensive projects and programs once the international community reduces its support. As such, DPs and GIRoA have begun to facilitate a greater focus on sustainability. Whether it is an infrastructure project or support to government salaries, it is essential to gradually shift towards medium to long-term development approaches and programs that emphasize sustainability. The government will need to review the way technical assistance is provided through the NPPs and line ministries. The government will also have to issue clear advice to budget entities on how recurrent costs for program outputs and activities are to be incorporated within budget plans and then implemented,

As donor funding levels decline, sustainable private sector investment will need to increase to improve stability through jobs and increased revenue. Current challenges to the development of a robust private sector include the lack of a business friendly environment based on an improved regulatory environment, pervasiveness of red-tapism, corruption and continued insecurity in parts of the country. It is thus extremely important for these issues to be addressed now.

Development efforts have been hampered by a lack of understanding of the particularities of Afghanistan's context, often caused by weak political economy analysis and a lack of research into what works in Afghanistan and why. Sometimes there has been transfer of institutions and processes unsuited to a country emerging from profound turmoil. Moreover, there has been underestimation of the time it takes to rebuild public administration, good governance and a functioning economy. The latter point has led the government to miss deadlines on carrying out commitments with regard to a variety of key reforms.

### **Capacity Constraints**

The current capacity of state institutions is a major hurdle for aid and development effectiveness in Afghanistan. This covers basic administrative capacities (e.g. IT skills), technical knowledge, procedural inefficiencies (e.g. delays in process) and weak legal frameworks (e.g. taxation, procurement or missing legislation altogether). This has affected development planning, coordination and implementation. Capacity continues to be constrained by the security environment at all levels of Government. Insecurity affects basic service delivery and hinders economic development. Within this context, the options available to both GIRoA and Development Partners have been limited.

Absorptive capacity constraints within national institutions and structural problems with the delivery of aid have caused low execution of development budgets. Budget execution has rarely surpassed 50% on average and disbursement levels have stalled at just under US\$1 billion a year since 2008, despite the fact that core development funding was doubled between 2005/06 and 2007/08. The causes for low budget execution are multiple: unrealistic budget formulation, large budget carry-overs from previous years, inadequate capacity of contractors and supervisory consultants, high turnover of technical staff at international organizations, budget rigidity resulting from earmarked donor funding, donors and government's fiscal years' differences, conditions set by donors, unpredictability of funds and limited capacity to implement projects on time. An

alternative way of looking at this problem is the 'too much money' factor, which will likely be less of an issue as aid expenditures have the potential to decrease after 2014. If absorptive capacity remains low and there are no changes to the way aid is delivered, such as donors increasing on-budget assistance, it would also become difficult for the government to manage its O&M costs, as they are expected to increase from US\$ 335 million, which the government presently pays from its budget, to US\$ 4.8 billion by 2015/16.

Various factors contribute to existing capacity constraints. Afghanistan has suffered from supply-driven, formulaic and fragmented programming and technical assistance by DPs which has created parallel public sector structures and undermined national capacities. DPs have incrementally created a reliance on a 'second civil service' of mainly off-budget donor-funded national consultants who often simply substitute for core civil servants rather than build their capacity. Much National Technical Assistance (NTA) has thus been engaged in routine operations instead of transferring knowledge and skills to Afghan institutions. DPs have tended towards risk aversion and a focus on short-term results at the expense of sustainable longer term outcomes, including a perpetuation of ineffective and short-term technical support. Many of these ills can be resolved through greater Afghan ownership of the development process.

Afghanistan suffers from serious labor market distortions due to DPs' hiring procedures and salary top-up policies. At the same time little progress has been made in developing a private sector management consulting industry or a higher education system capable of producing young people with the right public administration skills prepared to work in government at affordable salaries. Every government relies upon some contracted staff to support operations and Afghanistan is no exception. Currently, there is no coherent agenda to gradually integrate the 'second civil service' with the regular civil service and there is thus a high risk of losing qualified staff. What is required is a proper policy and consistent implementation so that Afghanistan can benefit from contracted support at affordable levels that relate to local costs. It is important to note that the second civil service is not made up of a single group of staff. The National Technical Assistance can be broken down into four categories:

- **Category 1-** Externally funded core staff. These are staff carrying out management, technical and administrative positions within core Government structures, in effect acting as civil servants, even though they usually do not have that formal status. These are the staff that is most accurately referred to as "the Second Civil Service".
- **Category 2-** National Advisors. These are individuals working in the core structures of the Government providing advice and assistance on technical issues, but having no line management responsibility and no responsibility to execute core technical and administrative activities for the Government. Also included here are political advisers to ministers
- **Category 3-** National Consultants. These are individuals employed on a fixed-term contract to provide specific deliverables, such as development of designs, installation of IT, conducting of assessments.
- **Category 4-** National Project Staff. These are staff responsible for implementing externally funded projects working both inside and outside government.

Another concern is the ‘brain drain’ of skilled Afghans from government offices for the better salaries and benefits at international agencies in Afghanistan, and the constant changing of staff in donor offices that reduces institutional knowledge and thus donor capacity. Government and donors recognize that the donor-funded current salary scales are inflated and unsustainable and efforts are being made to address the situation.

Inadequate capacity has affected systems and processes and resulted in procedural delays. The absence of progress on agreeing the degree of decentralization of decision making and authority to sub-national administrative entities has not only reduced centre-province coordination but has also compromised the efficacy of nationwide systems. In addition, there is a lower level of technical skills and knowledge at sub-national level due to insecurity or insufficient financial resources to recruit TAs and experts. Budget formulation and execution processes are two examples of shortcomings, in spite of extensive public finance management reforms. Further examples of procedural delays include procurement rules and regulations, land acquisition and resettlement, and taxation.

### **Accountability for Results**

In spite of government’s efforts to improve accountability for results through a number of initiatives such as Development Cooperation Dialogues and Annual Portfolio Reviews, accountability and transparency remain key challenges for development partnership in Afghanistan. Lack of transparency and accountability, both within the management of on-budget and off-budget assistance, as well as the lack of better coordination among Government ministries/agencies, has weakened management for results. Furthermore, inadequate reporting of information on aid flows to government have reduced transparency and, through a lack of predictability, hindered the ability of government to monitor and measure results. This reduced level of M&E makes it difficult to obtain a complete picture of external assistance.

GIRoA and DPs recognize the potential role of civil society organizations in policy formulation, planning development, and as potential monitoring agents to promote transparency and accountability; however, more work to include civil society in these areas is required. Similarly, the absence of a coherent national monitoring and evaluation framework, poor confidence in existing accountability measures in sub-national government and persistent insecurity have meant great difficulties in developing proper accountability in Afghanistan. This situation is exacerbated if GIRoA and DPs do not find a mutually acceptable framework to share the results and/or monitoring and evaluation reports of the DPs’ off-budget assistance with the government and agree on a common arrangement for managing for results.

### **Ownership**

One of the significant challenges for aid effectiveness is insufficient government ownership over development processes, so that interventions are planned, managed and implemented according to the country’s needs and priorities. Inadequate capacity of Afghan institutions, lack of donor confidence in national systems, a risk-averse culture and parallel structures established by donors are major causes of the government’s weak ownership over the country’s development agenda. GIRoA and DPs will aim towards finding ways to overcome this problem and agreeing on the best approaches to alignment.

The 50% on-budget target of the Kabul Process therefore remains unachieved, hampering the gradual progress towards improving government's ownership over aid. Even with the existing on-budget assistance, GIRoA does not exercise ownership fully, due to the limited discretionary resources available. The fragile context of Afghanistan makes it a unique case that requires a different approach and thinking to improve government's ownership. As such, GIRoA and DPs aim to work together to test the aspirations of the New Deal as the program is piloted in Afghanistan.

Even when on-budget assistance is provided, donors frequently set up parallel Program Management Units (PMU) to implement projects. These PMUs usually bypass the normal systems of line ministries and do not seek to build capacity but instead concentrate solely on implementing a specific project and ensuring that expenditure is in line with donor and/or implementing partner requirements. Also, the huge diversity among our DPs, with their different mandates and agendas in political, military and development issues, make it difficult for the government to coordinate, let alone own, aid inflows in the country. In some ministries there is so much off-budget work that the senior officials cannot even know fully what is happening.

### **Alignment**

The lack of alignment of funds with national priorities is a problem to which various factors have contributed. The absence of a national development framework before ANDS inadvertently promoted the diversity of donor-specific priorities and strategies (i.e. using aid for military and/or political purposes). This created an unfortunate precedent and ultimately weakened the initial alignment of aid with national development needs. As an integral outcome of the Kabul Process, the National Priority Programs (NPPs) were conceived to help improve alignment with ANDS and rationalize donor strategies within a national development framework. Donors are currently working with GIRoA in an effort to align to program-level deliverables and develop the necessary guidance on this endeavor. Sequencing within the NPPs will also assist donors and GIRoA as they strive to target aid most effectively. Whilst a full and coherent framework is therefore not quite yet achieved, alignment with NPP deliverables, where the NPP is approved by the DPs, is taken as a *sine qua non*.

There is a major caveat to this discussion. Alignment at the sub-national level is still a challenge, as disconnects in national and sub-national levels in terms of planning, coordination and budgeting still exist and GIRoA recognizes the need to improve these efforts. Furthermore, there is a major caveat to this discussion. Alignment at sub national level is still a challenge, disconnects in national and sub national levels in terms of planning and coordination still exist. Donors and provinces directly communicate without consulting and coordinating with the central government, causing alignment to further deteriorate. Progress towards the attainment of the "80% alignment with NPPs" – a commitment of the Kabul Process – is therefore slow, especially with the off-budget development financing related to the NPPs. The government sees the alignment of off-budget funding as an immense challenge, as it carries a substantially larger share of the overall external assistance received by Afghanistan.

## **Coordination and Harmonization**

Despite efforts of the government to improve coordination and harmonization for better aid management, weak coordination and harmonization still exist between the government and various aid actors in the country, including bilateral donors, the United Nations and other multilateral organizations, international and national NGOs, private companies, civil society organizations and Provincial Reconstruction Teams (PRTs). Government-donor mechanisms exist in abundance,- but have not significantly improved coordination or effective allocation of funds, often preferring process definition over substance and outcomes. It is clear that communication between and within government departments themselves requires improvement, in order to avoid duplication of activities and communication channels with donors. While at central level there may be too many mechanisms and some streamlining is required, at the central-provincial level there is a lack of communication and proper coordination does not exist. The constitution provides for a centralized state system and it does not systematically compensate for this centrality by giving clear, consistent policy and implementation advice to sub administrative units.

Projects are sometimes planned and implemented as separate efforts, without much thought as to how that fits into the program structures of line ministries or the wider sector and with other aid actors. The result is duplication and contradiction of efforts and over-crowding/under-funding of certain sectors and geographic regions. The challenge, therefore, is how to better coordinate these processes between government and DPs, especially at provincial levels, and how the government can assume that coordinating role and build it more effectively.



## **B: Procedures for Mobilizing and Managing Development Assistance**

### **Aid Planning and Mobilization**

- Ministry of Foreign Affairs (MoFA), on behalf of GIRoA, will sign Strategic Partnership Agreements<sup>9</sup> with DPs. Issues related to Afghan Tax and Duties, if included in such agreements, will require clearance in the form of a no-objection letter from the Ministry of Finance. MoF will respect arrangements concerning Afghan Tax and Duties and other related issues that are currently in place with certain DPs.
- Ministry of Finance (MoF), on behalf of GIRoA, will sign Development Framework Agreements (DFAs) and Financing Agreements (FAs) with DPs. These agreements will cover, among others, multi-year funding commitments (to the extent permitted by the legislation of DP countries), financing modalities, division of labor and the like.
- DFAs will provide the basis for longer term and sustained engagement of DPs and will be formulated to support the implementation of national plans, NPPs and their deliverables.
- MoF in cooperation with line ministries and independent government entities will annually prepare the 3-year Medium Term Expenditure Framework (MTEF) that is consistent with the NPPs financing needs.
- DPs engagement at sector and NPP level will be defined under the Division of Labor (DoL) policy and will be incorporated in individual DFAs.
- Line ministries and independent government agencies, in close coordination with MoF and MoEc, will plan their budgets in line with NPPs and will identify their financing needs.

### **Consultation and Review**

- MoF, on behalf of GIRoA, will hold **Core Donor Consultations (CDC)** with DPs and line ministries to coordinate and identify funding modalities suited to various programs. CDCs will discuss and negotiate on-budget financing and contributions to pooled mechanisms such as Trust Funds. MoF and DPs will also agree on disbursement schedules to ensure timely and effective allocation of funds in support of national priorities.
- To align DPs' off-budget assistance according to their commitment of aligning 80% of aid with the NPPs in accordance with the Kabul Communique and the TMAF and to increase the effectiveness of off-budget financing, MoF, on behalf of GIRoA, will aim to establish NPP or, where necessary, sector level Working Groups (WGs) to coordinate development financing. AMD at DGB and Policy Department jointly will be tasked as the Secretariat for coordinating NPP financing, and MoEc will also be technically involved in this process. A lead donor to provide technical advice will be assigned for each WG to ensure that development financing supports either entire components or specific deliverables of an NPP.

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<sup>9</sup> Strategic Partnership Agreements will cover, inter alia, issues related to security, governance and humanitarian aid.

## Agreement, Approval and Signature

- As per Article 10 of the Public Finance and Expenditure Management Law (PFEML), MoF is legally mandated by GIRoA to sign Financing Agreements with DPs for financing of development projects. Line agencies will inform MoF of any expression of interest by DPs to fund specific programs. Line agencies shall not initiate negotiation with DPs about funding, nor shall they sign financing agreements. MoF will agree with DPs the requirements for basic high level information to be in all Finance Agreements to ensure consistency across agreements, but allowing flexibility to incorporate DP's specific legal framework.
- For loans, Ministry of Justice (MoJ) will review loan agreements and provide legal opinion on behalf of the GIRoA. Upon MoJ clearance, MoF will sign loan agreements.

## Monitoring and Implementation

- MoF will be responsible to review and report on the fulfillment of all conditions attached to grant and loan agreements. MoF will ensure the timely execution and release of financing to line agencies in accordance with the allocations approved in the national budget. Line agencies will be responsible for the execution of programs and will be accountable for budget expenditures.
- Ministry of Economy (MoEc) will be responsible for outcome level monitoring, while MoF will be responsible for implementation monitoring. MoEc/MoF will require line agencies to submit progress reports on regular basis. These reports will provide the basis for discussion about the implementation of the NPPs at relevant Working Groups.
- For off-budget projects, line agencies will work with the MoF to monitor and report on performance and results. This information will form the basis for Annual Portfolio Reviews (APR) with all DPs.

## Performance Review and Evaluation

- MoF will hold Annual Portfolio Reviews (APR) with all DPs and relevant line ministries to track the progress of development projects, particularly those financed through off-budget modalities. Through APR the GIRoA and DPs will be able to mutually evaluate the results achieved by the projects, identify implementation bottlenecks and develop corrective strategies, as necessary. Following any such APR, a report will be developed assessing the overall performance of the donor and the relevant government agency, and jointly submitted to the JCMB.

## Aid Accounting and Reporting

- The **Development Assistance Database (DAD)** is the official repository of aid information and an effective tool for aid accounting and reporting in Afghanistan. MoF is mandated to report on the use of development assistance channeled through both on and off budget modalities. DPs will provide information on the use of aid on regular basis and will update the DAD.
- MoF will publish and disseminate a **Development Cooperation Report (DCR)** every year to report on aid and development achievements, challenges and the way forward to more effective and efficient aid management and coordination. The analysis undertaken within the



DCR will be based on the outcome of Development Cooperation Dialogues (DCD) and will include data from the DAD.

### **C: Implementation and Monitoring Framework**

This annex is under the development.