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# Economic Growth & Governance Initiative

## Annual Report

October 2010—September 2011

**Prepared for:**

USAID/Afghanistan

Office of Economic Growth

Contract No. EEM-I-00-07-00005-00

**November 21, 2011**

This publication was produced for review by the United States Agency for International Development. It was prepared by the advisors supporting USAID's Economic Growth and Governance Initiative. The views expressed in this publication do not necessarily reflect the views of USAID or the United States Government.

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## Economic Growth and Governance Initiative



The overarching vision of the USAID Economic Growth and Governance Initiative (EGGI) project is to strengthen the Afghan Government's capacity to develop and sustain a market environment that supports responsible economic management, private sector-driven growth, investment promotion, access to finance, and job creation.

In partnership with the Government of the Islamic Republic of Afghanistan (GIROA), EGGI's Afghan national and expatriate advisors work with key ministries and various government agencies to provide technical assistance that facilitates both sustainable and transparent policy and decision making. EGGI's work helps create an enabling policy and regulatory environment that helps strengthen commerce and investment in the private sector, but also builds the institutional capacity and sustainability of GIROA. In its second contract year, EGGI delivered broad-based technical assistance in three primary component areas: Economic Policy, Financial Sector Development, and Private Sector Development, with various workstream activities within each component. After the project underwent a major change in scope in early 2011, the project was consolidated around two components of Economic Policy and Business Enabling Environment, with an additional cross-cutting focus on Gender Mainstreaming activities. As EGGI navigated these changes, both the project's Afghan national and expatriate advisors worked to deliver high-impact assistance that continued progress on EGGI's core objectives and further developed the capacity of GIROA counterparts.

## Notable Achievements During Year 2

In Year 2, EGGI worked directly with the Afghan Government to provide technical assistance and implement reforms in support of achieving EGGI's overarching vision. EGGI advisors also concentrated on providing training and on-the-job assistance to enable GIROA counterparts to continue reforms catalyzed by EGGI assistance. Some of EGGI's key achievements in Year 2 (October 1, 2010—September 30, 2011) include:

- Coordinated Afghanistan's first-ever national "Provincial Budget Policy Symposium" in Kabul for over 500 GIROA officials, officially launching the Ministry of Finance (MoF)'s new provincial budgeting policy approach and pilot program
- Provided 1,919 person-days of training in program budgeting, enabling four budget units to achieve "graduation" status and prepare their budgets independently, and facilitating all 37 assigned budgetary units to successfully submit their annual budgets to the MoF
- Supported development of Medium Tax Offices (MTO) in Herat, Mazar, and Jalalabad, helping Herat and Mazar MTOs to surpass FY1389 revenue collection targets by 50% and 115%, respectively
- Supported the MoF in negotiations to achieve debt forgiveness of over 1 billion USD from Germany, Russia, and the U.S.
- Launched the Doing Business Better Initiative (DBBI) to improve Afghanistan's ranking in the World Bank's "Doing Business" report through coordinating with stakeholders to implement sustainable reforms that improve the business enabling environment
- Graduated 33 interns (100%) from the Women in Government (WIG) program and helped 85% of graduates to find full-time jobs
- Implemented the Core Banking System (CBS) in Da Afghanistan Bank (DAB)'s Head Office and 39 provincial branches, capturing over 95% of total DAB-serviced client transactions and helping recover \$35 million unaccounted for in financial records since 2006
- Promoted provincial economic development by completing the first Private Sector Development (PSD) Strategic Plan for Balkh province and expanding the PSD Strategic Planning process to Nangarhar and Herat provinces
- Improved DAB collection of robust economic data through strengthening of Zone Branch offices and helping execute the Survey of Regional Economic Activity (SREA) in Herat, Nangarhar, and Kabul
- Delivered web application enhancements and improved registration materials for the Afghanistan Central Business Registry (ACBR)
- Helped implement supervisory structural reform at DAB, resulting in a new DAB "Action Plan for Strengthening Financial Supervision" that was presented to President Karzai in November 2010.

# Changes to the EGGI Year 2 Workplan

In Year 2, at USAID's direction the EGGI project underwent a substantial change in scope. From inception, the project provided technical assistance and training to GIRoA under three primary components: **Economic Policy**, **Financial Sector Development (FSD)**, and **Private Sector Development (PSD)**. During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, the FSD component and support to Da Afghanistan Bank (DAB) was de-scoped for the remainder of the contract year and the component was successfully wound down in accordance with the realigned priorities.

The project completed "right-sizing" in April 2011, and work for the remainder of FY2011 continued under a revised Year 2 Workplan that maintained two components: **Economic Policy** and **Business Enabling Environment**, the latter of which incorporated some activities of previous Private Sector Development work.

Pursuant to the structure of the Task Order and the original Year 2 Workplan, EGGI's technical support in Year 2 mapped to the Intermediate Results (IRs) shown below, which are part of the USAID mission Performance Monitoring Plan (PMP) in Afghanistan. The effect of the project "right-sizing" in April 2011 is reflected below:

IR 4.1: Effective fiscal and monetary policy implemented	IR 4.2: Policy, legal, and regulatory framework for key economic sectors strengthened	IR 4.3: Competitiveness of private sector enhanced
<b>Economic Policy</b> <ul style="list-style-type: none"> <li>• Policy Support to the Ministry of Finance</li> <li>• Program Budgeting</li> <li>• Provincial Budgeting</li> <li>• Provincial Tax Administration</li> <li>• Control and Audit Office (July 2011)</li> <li>• Revenue Reconciliation</li> <li>• Policy Support to the Ministry of Economy</li> </ul>	<b>Financial Sector Development</b> <ul style="list-style-type: none"> <li>• Monetary Policy, Statistics, and Market Operations</li> <li>• Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance</li> <li>• Legal and Regulatory Drafting and Promotion/ Support to the Office of General Counsel</li> <li>• Payments Systems</li> <li>• Accounting and Financial Management</li> <li>• DAB Zone Branch Development</li> </ul>	<b>Business Enabling Environment (previously Private Sector Development)</b> <ul style="list-style-type: none"> <li>• Afghanistan Central Business Registry (ACBR)</li> <li>• Commercial Law</li> <li>• Support to MoCI/Doing Business Better Initiative (DBBI)</li> <li>• Gender Mainstreaming</li> <li>• Telecom Sector</li> <li>• Mining Sector</li> <li>• Provincial Private Sector Development Strategic Planning</li> <li>• Grants Under Contract</li> </ul>
 = Component ended April 2011 or earlier	 = Workstream ended April 2011 or earlier	

During the first half of Year 2, the project deployed a diverse team of advisors to work along GIRoA decision makers in many key Afghan ministries and institutions, including:

- Ministry of Finance
- Ministry of Economy
- Control and Audit Office
- Da Afghanistan Bank (Central Bank)
- Ministry of Commerce and Industries
- Ministry of Mines
- Ministry of Communications and Information Technology
- Afghan Telecom Corporation
- Afghan Telecom Regulatory Authority

After the "right-sizing", the project's work was consolidated around assistance to two ministries:

- Ministry of Finance
- Ministry of Commerce and Industries

Work in Program Budgeting, however, also delivered assistance to a wide range of GIRoA budgeting units to support their budget preparation processes.

# Component I: Economic Policy

## Economic Growth and Governance Initiative

### Component I: Year in Review

In Year 2, the project's Component I, *Economic Policy*, focused on supporting core government financial management functions at the policy and operational levels. The overarching objective was to support GIRoA in increasing its ability to achieve fiscal sustainability over a realistic time-frame, while still providing for essential services and maintaining the fiscal resources needed to provide for government operations and service delivery. A secondary overarching objective was to support GIRoA in performing these functions in a way that would best encourage private sector growth.

During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, some Component I workstreams closed for the remainder of the contract year and successfully wound down in accordance with the realigned priorities. Continued workstreams were consolidated around core support to the Ministry of Finance (MoF). Workstreams that extended through Year 2 included policy guidance to the Office of the Minister of Finance and in the Fiscal Policy Unit (FPU) of the MoF; program and provincial budget workstreams that interfaced with separate units of the Budget Department of the MoF; and provincial tax administration, which worked in conjunction with the Afghanistan Revenue Department (ARD), part of the Customs and Revenue Division of the MoF. Workstreams that were ended included development of revenue reconciliation databases (RRD) for the Afghanistan Revenue Department (ARD); policy and planning guidance to the Ministry of the Economy (MoEC); and capacity development, training, and audit manual development for the Central Audit Office (CAO). Although the RRD workstream ended in March, it was subsequently continued as part of the project's Year 3 workplan.

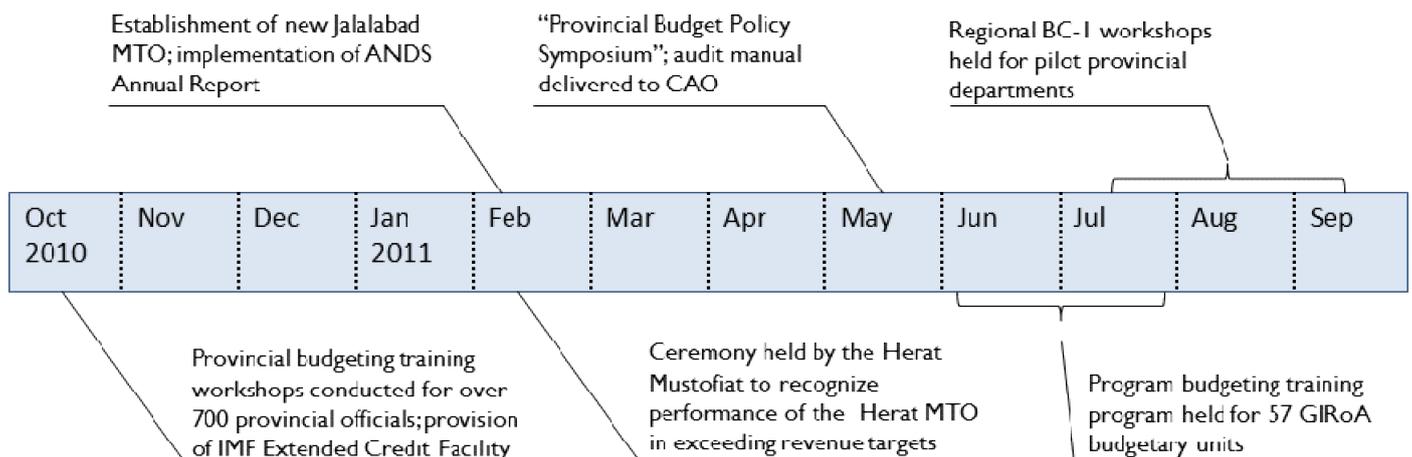
#### Year 2 Outcomes as a Result of USAID/EGGI Assistance:

- **Successful Afghanistan debt negotiations:** GIRoA was able to obtain debt forgiveness totaling over 1 billion USD from external donors; MoF also advanced negotiations on the IMF's Extended Credit Facility (ECF) and the World Bank-administered Afghan Reconstruction Trust Fund (ARTF).
- **Improved GIRoA ability to project revenue:** The project helped update the FPU's existing revenue projections model and

delivered a comprehensive training manual to facilitate FPU's use of the model.

- **On-time submission of GIRoA Program Budgets:** The project's program budgeting workstream delivered 1,919 person-days of training, improving budget staff capacity that led to all 37 EGGI-supported budgetary units to submit budgets on time to the MoF.
- **Independence of four budgetary units:** The project provided training and intensive coaching to enable four budgetary units to meet the criteria for "graduation" status, meaning they are able to prepare their budgets independently.
- **Implementation of provincial budgeting pilot:** The project played a key role in rolling out the MoF's pilot to integrate provincial priorities into the national budget process, with all 170 provincial departments of the pilot line ministries successfully participating in the pilot reform program.
- **MTOs exceed revenue goals:** The MTOs that the project supported in Herat and Mazar showed improved performance in both revenue collection and tax returns filed, with the Herat MTO exceeding targeted revenue for FY1389 by 50% and the Mazar MTO exceeding its target by over 100%.
- **CAO technical capacity built:** The workstream delivered training on external auditing principles to CAO staff and created a comprehensive audit manual outlining a standard audit methodology, also translated into Dari to improve utility across the CAO.
- **New development budget program guidance:** Project advisors produced new instructions and guidelines for Public Investment Programs (PIP) and Provincial Development Programs (PDP) for the Minister of Economy, which will govern budget investment proposals for the upcoming 1391 development budget.
- **Improved GIRoA revenue tracking:** The implementation of the RRD in all 34 of Afghanistan's provinces, in addition to 38 ministries and government offices, enabled the MoF and ARD to monitor revenues daily and input reliable revenue data into the Afghanistan Financial Management Information System (AFMIS).

#### Timeline of Key Events under EGGI Component I:



## Program Budgeting

### Background

Prior to 2006, the annual GIRoA budget was prepared by allocating resources to broad economic categories (e.g. wages, goods and services, or acquisition of assets). Little information was available on what results would be achieved with those resources. The April 2006 IMF report “Afghanistan: Responding to Challenges in Public Financial Management” proposed to change this system by introducing a simple program budgeting approach to facilitate integration of ordinary and development budgets. Program budgeting was then introduced by the MoF as a budgeting system for line ministries and agencies to better link their budgets with policy priorities aligned to the Afghanistan National Development Strategy (ANDS).

Program budgeting requires budgetary units to structure their budgets by programs and activities with output and outcome indicators to assess progress towards achieving GIRoA strategic objectives. Program budgeting also serves as a framework for integrating GIRoA’s core operating and development budgets to better allocate resources for development project expenditures. The EGGI project and its predecessors have supported the MoF for five years in program budget reform implementation through advisors embedded in assigned line ministries and agencies that provide on-the-job training, coaching and mentoring to GIRoA civil servants.

### Year 2 Results with USAID/EGGI Assistance

Across Year 2, the project provided core program budgeting preparation assistance to 37 budgetary units and added a new budgetary unit in June 2011 (the Independent Commission on Overseeing the Implementation of the Constitution) at the request of the MoF, marking the 38th budgetary unit to receive EGGI assistance. The MoF also introduced several newly expanded public expenditure management initiatives with support from project advisors, including procurement and financial planning (PFP), and performance monitoring and reporting (PMR) for improved tracking and execution of the GIRoA budget. The project’s Year 2 also represented the first full budget cycle that GIRoA rolled out program budget reform implementation across all line ministries and agencies.

From October to December 2010, **the program budgeting team supported its 37 budgetary units to prepare program budgets for the 1390 (2010-2011) budget process**, with 29 units involved in this reform for the first time. Following successful preparation of the program budgets and on-time submission to the MoF, project advisors supported their assigned line ministries to revise budgets based on MoF feedback and then to prepare presen-



Ministry of Information and Culture senior officials participate in a 1390 budget debriefing session. A MoIC official led the sessions with EGGI support.

tations for formal budget hearings justifying their submissions before the Budget Committee. The presentations highlighted the ministries’ strategic objectives, key achievements for the past year, key programs and their supporting details (subprogram, activities, projects, and outputs), proposed development projects, and staffing/organization. The program budgeting team then supported the ministries during the actual hearings conducted in November and December, and built capacity to revise final budgets to incorporate into GIRoA’s national budget for Cabinet and Parliament approval in April 2011.

After supporting the assigned budgeting units in preparing their 1390 program budget requests, **the project extended its technical assistance to budgetary units in procurement and financial planning, and performance monitoring and reporting for the first time as a part of new MoF initiatives**. This was an effort to address the weak capacity of budgetary units to track budget expenditures and to measure actual results of spending. MoF conducted specific training for both MoF sector managers and project program budget advisors to prepare them to assist line ministries in these two areas.

Under the PFP initiative, all budgetary units submit a detailed breakdown of their operating and development budgets by month and by program to forecast cash needs and to improve planning for future procurements during budget execution. Budgetary units also offer a breakdown by province to show planned expenditures and procurements at the subnational level. During February and March, the project’s program budgeting team assisted budgetary units to prepare PFP plans for the 1390 budget, and then update the PFP plans starting in April 2011 to make required adjustments during budget execution. Most of the budgetary units required considerable assistance to complete the annual PFP plans for the first time, and then to update the plans as budget adjustments were required during execution.

The project’s program budgeting advisors also assisted budgetary units to prepare quarterly reports on their progress towards achieving annual performance indicators and targets in accordance with MoF guidelines. While budgetary units’ capacity to complete the reports has been substantially improved, performance monitoring and reporting remains a major level of effort given that most budgetary units do not collect statistical information on their specified program and subprogram outputs.

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A Central Statistics Office (CSO) official presents a 1390 budget debriefing created for the CSO’s program budget implementation team with EGGI support

# Program Budgeting

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The project then supported the MoF's Budget Department to deliver the fifth annual program budget training program for all 57 budgetary units, held from June-July 2011. Delivered since 2007, the training program provides a foundation for building skills of GIRoA officials responsible for preparing budgets for the next annual budget cycle. During the month-long trainings, a total of 365 GIRoA civil servants attended, resulting in 988 person-days trained (see infographic below). The training program was segmented into two programs: two-day workshops for "experienced" ministries, and three-day workshops for "less experienced" ministries. Experienced ministries represented those line ministries with three or more years of experience in program budgeting implementation. Training modules covered an overview of program budgeting, completion of budget submission forms, procurement and financial planning, performance reporting, and budget execution.

**By the Numbers:**  
In addition to standard trainings, EGGI delivered briefings on program budget modules 1 and 2 to 38 GIRoA ministries and agencies, totaling 695 participants (610 men, 85 women)

Finally, the project promoted reflection on and evaluation of training by GIRoA counterparts in order to improve the efficacy of program budgeting assistance. On July 31, project advisors conducted a budget reform "Lessons Learned" workshop for EGGI program and provincial budgeting reform teams. Officials from the MoF Budget Department involved in provincial and program budget reform also participated. The purpose of the workshop was for the project's budget advisory teams to review their Year 2 project activities to date in support of MoF program budgeting and provincial budgeting reform, and also to reach a consensus on successes, challenges, and areas for improvement for the remainder of Year 2 and



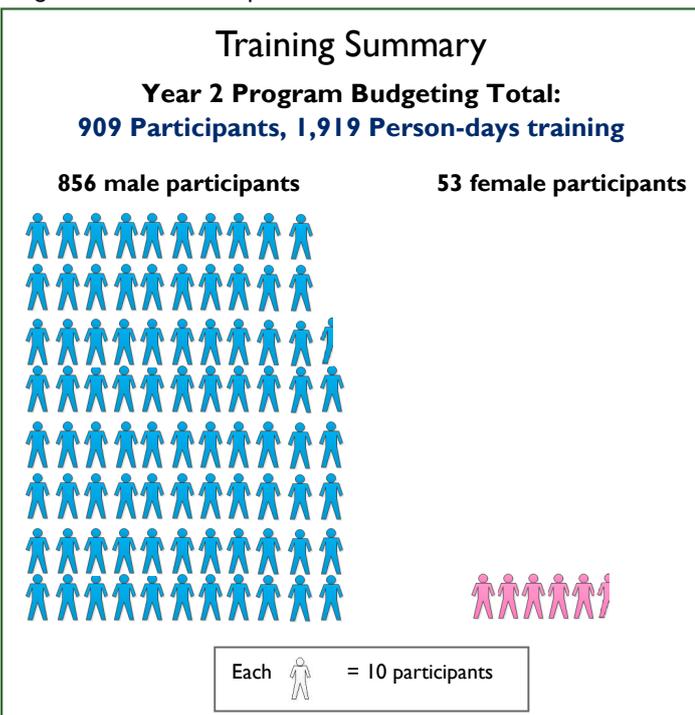
the upcoming Year 3. As a result of the value and success of the workshop, MoF budget managers suggested conducting a similar "Lessons Learned" program biannually to monitor progress of improvements.

### Conclusions/Lessons Learned

The project has achieved great success since beginning support of program budget reform implementation in 2008, and has continued to internalize and act on lessons learned in the scope of Year 2 activities. One important factor is that GIRoA ministries and their employees still lack the basic tools for implementing program budgeting reform—many employees do not have a working knowledge of Excel, and many ministries still do not have reliable internet access and electricity. GIRoA still needs to do more to address the lack of essential tools of trade needed for all government civil servants involved in program budgeting in order to successfully implement reform efforts.

Program Budgeting must also be integrated with a budget tracking and performance reporting process for it to be successful in monitoring budget execution and assistance provided to ministries. In 2010 the MoF required detailed PFPs from budgetary units, which took considerable effort for the units who prepared the plans for the first time. The PFPs will assist GIRoA to better track actual expenditures against what were planned for the fiscal year; however, it will take several more years before all Line Ministries develop capacity to prepare their PFPs independently.

Finally, during Year 2 the project reviewed 20 project submissions for the 1390 budget process from assigned budgetary units to assess quality; most of these submissions lacked full project descriptions and detailed cost breakdowns. For the 1391 budget process, the MoF introduced a project template to improve the quality of project submissions by the budgetary units. The project's program budgeting team assisted their budgetary units in completing the project templates for many of their development projects. This proved to be a success. Some of the line ministries/agencies were able to prepare project descriptions and detailed cost breakdowns. However, additional training and on-the-job coaching and mentoring will still be needed to build the capacity of all budgetary units to prepare well-costed and detailed project proposals as part of the national budget process.



## Provincial Budgeting

### Background

Preparation of government budgets in Afghanistan is highly centralized. Line ministries prepare budget requests and submit to the MoF, in most cases without consulting provincial departments. Most provincial departments are not aware of their allocated budget until they receive their (often delayed) allotments for the quarter, due to weak communications between central line ministries and their provincial departments. In addition, a World Bank analysis of Afghanistan's per capita budget spending by province shows discrepancies up to a factor of ten times (i.e. one province receiving ten times the amount in per-person budget allocation than others).

To address these issues, the MoF initiated program budgeting and provincial budgeting reform in 2006-7. Program budget reform was aimed at linking policies with the budget at the central ministries' level by developing policy-based programs, sub-programs and activities, and translating them into budgets. Provincial budget reform was then seen as the next step after program budget reforms, where programs would be rolled out to provinces that developed and costed activities in support of centrally-developed programs but that still addressed specific local needs. This reform was launched as a "pilot" which would begin with line ministries with mature budgeting processes and expand yearly to integrate these provincial activities into the national budget process. The EGGI project has specifically supported MoF in these provincial budgeting reform activities since 2010 (1389).

### Year 2 Results with USAID/EGGI Assistance

In Year 2 the project supported the MoF Budget Department to implement its action plan for provincial budgeting reform based on a 2010 agreement between USAID and MoF. Under the agreement, EGGI would establish five regional hubs staffed with 1-2 Afghan national budget experts to assist in the reform rollout across the country. The MoF action plan consisted of three components: (1) two-day MoF consultation workshops with provincial line directorates on budget reform; (2) three-day training programs on public financial management skills; and (3) half-day workshops on provincial resource allocation. In March 2011, the MoF also began working more closely with the Independent Directorate of Local Governance (IDLG) to create a focused program aimed at building the capacity of targeted line directorates to prepare project proposals for the national budget process. The project supported the rollout of this new provincial budgeting approach and pilot program from May – September 2011.

From October 2010 through January 2011, the **MoF with EGGI project support conducted provincial budgeting training workshops reaching over 700 provincial officials from 23 provinces** (see infographic on following page for training data). For the workshops, provincial budgeting advisors supported the MoF to consult with provincial officials on their budgeting issues and share



Central Region provincial officials work together on a mock BC-1 project proposal form during a working session at the MoF workshop held August 14-16, 2011



Minister of Finance Omar Zakhilwal delivers closing remarks at the national provincial budgeting policy symposium held May 16-17, 2011

information on MoF budget procedures, to provide basic training in public financial management, and to introduce the concept of provincial resource allocations aimed at equitably distributing budgetary resources. As a result of the trainings, provincial officials gave feedback that they obtained a good understanding of the budget process and could better prepare budget estimates that reflected their provincial priorities. For many, it was the first time they had experienced MoF-led budgeting events in their region or province, and they welcomed additional training events in the future.

By February 1, 2011, the MoF had completed rollout of its provincial budgeting action plan, which outlined the ministries and their schedule for participation in the provincial budgeting pilot. In March, the MoF and IDLG negotiated agreement on a new subnational financial policy framework aligned with IDLG's subnational governance policy. The MoF and IDLG agreed to pilot a new provincial budgeting approach for the 1391 budget cycle to increase provincial input into the national budget process. In its first year, the pilot targeted five key GIRoA bodies — Ministry of Education (MoED); Ministry of Public Health (MoPH); Ministry of Agriculture, Irrigation, and Livestock (MAIL); Ministry of Rural Rehabilitation and Development (MRRD); and the IDLG — and each of their 34 provincial departments (170 in total). Under the initiative, the pilot provincial departments are given a ceiling of USD 500,000 to fund priority projects in line with their ministry or directorate's national priority programs and strategic objectives. The project supported MoF in developing operational policy guidelines and templates to implement the new pilot program, including Budget Circular 1 (BC-1) instructions, and project proposal summary costing worksheets and justification narratives.

Following the initiation of the pilot, in **May 2011 the project supported the MoF's first-ever national "Provincial Budget Policy Symposium"** in Kabul for over 500 national and provincial government officials and international donors. The symposium marked the official launch of the MoF's new provincial budgeting policy approach and pilot program, and provided information to national and provincial officials on Afghanistan's national budget formulation. It also publicized how the new pilot program will increase provincial officials' input into the national process and improve communication between line ministries and their provincial departments. The provincial budgeting team assisted the MoF in organizing and conducting the symposium, representing an important milestone in building MoF capacity to effectively advance provincial budget reform at the national and provincial levels.

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# Provincial Budgeting

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After the symposium, the project’s provincial budgeting advisors supported the MoF to conduct a series of regional workshops from July—September to build the capacity of the pilot provincial departments to prepare project proposals based on MoF BC-1 guidelines. The workshops provided training on the new provincial budgeting process, linking provincial priorities with the national budget, and included working group sessions with practical exercises on completing MoF budget submission forms. After the workshops, the provincial budget team and central ministry representatives continued supporting the provincial departments to prepare project proposals for the next year’s budget process. Most provincial line directorates prepared development proposals for priority projects to benefit districts and villages, including construction of administration buildings (IDLG Sectoral Directors), construction of roads and bridges (MRRD), construction of new schools (MoED), and construction of clinics (MoPH). About 50 provincial line directorates had completed BC-1 submissions for their line ministries and the MoF by the end of Year 2. The provincial budgeting team will continue to work through the beginning of Year 3 to assist the pilot line directorates to complete BC-1 submissions by the final deadline of October 22, 2011.

The project also worked to improve donor and stakeholder coordination on provincial budgeting initiatives. In June, provincial budgeting advisors delivered two briefings for USAID and ISAF officials on EGGI assistance to the MoF in implementing provincial budgeting reform. On June 1, advisors also briefed 25 USAID program officers on the MoF provincial budgeting pilot activity to be implemented during the next annual budget cycle for 2012 (SY 1391), orienting the attendees to the pilot activity and helping determine if the pilot will impact any key national programs fully or partially funded by USAID. On June 27, project advisors also briefed ISAF governance officials on the pilot provincial budgeting training which commenced July 16. The training focused on preparing development project proposals for the 1391



An EGGI provincial budgeting officer works with Logar provincial officials to complete BC-1 forms for priority project proposals for the 1391 pilot program during a province visit

national budget process. The briefing was an effort to share information with ISAF on existing MoF provincial budgeting training to better coordinate and support ISAF’s efforts to orient field officers to provincial budgeting and governance processes.

### Conclusions/Lessons Learned

Overall, the project was quite successful in supporting the MoF Budget Department in the rollout of its provincial budgeting pilot program with four line ministries (MAIL, MRRD, MoED, and MoPH) and the IDLG and their 34 provinces in building capacity for the first time for many of the departments in project proposals and costing estimates for the 1391 national budget process. The project’s provincial budgeting team specifically supported the delivery of regional workshops in BC-1 and BC-2 preparation which focused on training in MoF budget circulars and the national budget process. This training provided invaluable information to provincial line directorates on preparing priority project proposals aligned with their Ministries’ national priority programs and strategic objectives, the national budget formulation process, and how they could provide input to ensure that local priorities were better reflected in the national budget.

The pilot program was launched at a national provincial budgeting policy symposium in May 2011 which was based on an earlier EGGI proposal to the MoF PBU to convene a national workshop with the line ministries and provincial budgeting departments to better inform them of the MoF provincial budgeting approach prior to launching training programs in the provinces. The two-day national symposium was attended by 500 participants including key officials from the pilot Line Ministries, provincial departments, members of parliament and international donor representatives and successfully provided an overall orientation on the MoF provincial budgeting policy approach which was developed with IDLG collaboration. A key “lesson learned” from the experience is to hold the symposium in late March or early April as originally planned to better synchronize the provincial budgeting pilot with the timeline for the national budget process.

The first key lesson for provincial budgeting was that while the MoF Budget Department drafted a policy brief on the new provincial budgeting policy approach that provided a framework for the pilot with EGGI input/assistance, the Department did not develop a detailed implementation plan for training events and follow-up technical assistance in preparing project proposals.

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# Provincial Budgeting

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As a result, there was confusion about dates and timing of training events, and provincial officials were often not provided adequate notice to prepare for the events. The project then prepared a training plan without the collaboration of the MoF PBU, which was not fully adopted. Because of the lack of a plan, UNDP was not able to provide the funding needed to conduct each of the training workshops, which contributed to delays in the rollout of the pilot program. The overall lesson learned was the necessity for a comprehensive and detailed training plan for pilot implementation that is shared in advance with provincial officials and donors. The provincial budgeting team has included assistance to the MoF Provincial Budgeting Unit in developing a detailed training plan in collaboration with the MoF PBU in its Year 3 workplan prior to the rollout of the budget circular workshops to address this issue.

Another lesson gleaned from Year 2 activities was the importance of pilot line ministries actively participating in regional BC-1 and BC-2 workshops. In 2011, the MoF Provincial Budget Unit invited pilot line ministry representatives to participate in regional BC-1 workshops. The involvement of line ministries in the workshops was key to ensuring that provincial departments developed proposals aligned with the line ministries' strategic objectives. The project's advisors observed that those provincial line directorates who were able to work with their line ministries during the workshops ultimately prepared better project proposals for the 1391 budget process in addition to the support provided by the EGGI provincial budgeting team during the working group sessions and in presenting training modules. For Year 3, the EGGI provincial budgeting team will also allocate more time to work with the EGGI program budgeting team prior to delivering the budget circular workshops to review the program budgets for the pilot ministries intensively to gain a better understanding of the Ministries program budget structure, strategic objectives and outcomes.

In 2011 the MoF, with project support, structured the regional BC-1 workshops to be three-day training events consisting mostly of presentations and working group sessions on preparing project proposals using MoF budget circular templates. Most provincial line directorates were preparing project proposals for the first time, which took considerable effort for the project's provincial budgeting team to assist in preparing quality submissions. For the next year, it is recommended to structure the workshops with at least one full day of working group sessions, and another day of presenting working group results and gaining immediate feedback from MoF and the line ministries on the project proposals. This timeline would allow participants more time to gain tangible practice during working group sessions to improve their capabilities and capacity to prepare quality budget submissions. Additionally, the project's provincial budgeting team will allocate more time after the workshops to follow up with provincial pilot directorates to support their preparation of quality submissions preferably through on-site visits and/or by phone and email communication. Also, the provincial budgeting team will increase to 12 full-time provincial budgeting officers in Year 3. This will also enable the team to conduct active follow up support to the provinces as needed in preparing their budget circular proposals.

Finally, in 2011 the project had planned a week-long orientation session for the new provincial budgeting officers and follow on week-long "training of trainers" programs for the project's provincial budgeting team prior to conducting budget circular training for the MoF PBU. Due to certain logistical issues and the project's transition, the team was not able to hold the week-long training program preparation sessions that had been planned. The "training of trainers" ses-

sions were only one and two days which falls short of the week time period needed for preparation. For Year 3, the project plans to conduct one to two week intensive training preparation sessions for the provincial budgeting team in collaboration with the MoF PBU to effectively prepare the team for the provincial budgeting capacity building training program (budget formulation and budget flow, budget execution process, procurement procedures and case studies, national priority programs, and transition), consultation and communication workshops, and the budget circular workshops. This is particularly important considering the team will be hiring six new members by the Spring of 2012.

# Provincial Tax Administration

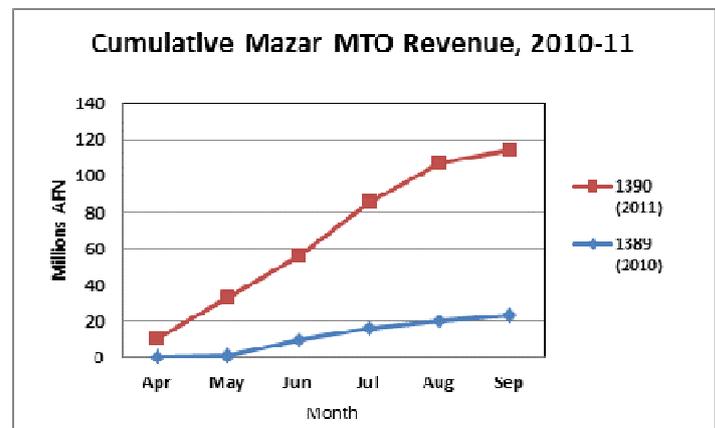
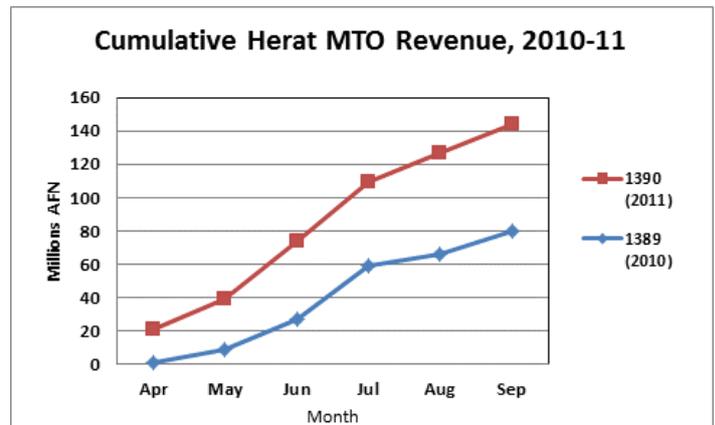
## Background

Afghanistan continues to have one of the lowest tax yields on GDP in the world. To achieve fiscal sustainability, cover operating budget costs, and provide basic essential services to its citizens, it is incumbent upon Afghanistan to increase its tax collection and improve overall revenue mobilization. The EGGI project has supported these efforts by providing technical assistance to help GIRoA increase collections by improving revenue administration and enforcement, and broadening the tax base. While there had been improvements in both tax filing and payment compliance during Year 1 of the project's assistance, significant segments of the taxpayer population remained non-compliant. MoF outreach improved taxpayer education, but there remained large segments, mostly in the business community, that had not been afforded adequate taxpayer services or education. Compliance among these segments needed to be addressed in order for tax administration in Afghanistan to approach professional status. To achieve those results, it was critical to improve both management performance and staff technical capacity. During Year 2, EGGI worked towards these goals by helping strengthen the Medium Taxpayer Offices (MTO) in Herat and Balkh provinces, with technical assistance provided in the areas of management, taxpayer services, audit, and taxpayer education.

## Year 2 Results with USAID/EGGI Assistance

Building on the success obtained while providing technical guidance to conduct "streamlined" taxpayer audits in Year 1, the project furthered this success in Year 2 by improving MTO staff capabilities in Herat and Mazar to conduct full taxpayer audits. While streamlined audits examined taxpayers' compliance on making withholding payments, full audits examined taxpayers' entire annual tax returns to determine income tax liabilities. Full examinations and audits are crucial to ensure that taxpayers file required tax returns correctly and meet any outstanding tax obligations. Project advisors assisted both Herat and Mazar MTOs in conducting full audits of 10% of their respective audit inventories, thereby improving their filing compliance significantly and achieving revenue targets well ahead of schedule. EGGI also conducted audit and field compliance training classes, along with on-the-job training, to teach employees the fundamentals of audit and interviewing skills.

As a result of these activities the Herat MTO consistently met and surpassed its targets in revenue collection and tax return filings throughout the project Year 2. **Through the end of Afghan**

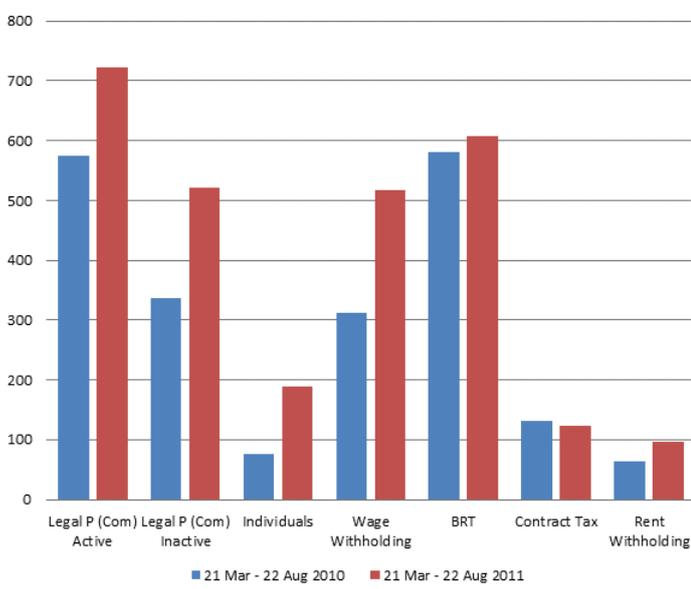


**FY1389 in March 2011, the Herat MTO's total revenue collections were 149.6 million AFN, far exceeding the 100 million AFN goal.** From March to September 2011 the MTO collected another 150.5 million AFN, demonstrating rapid growth and reaching 70% of the MTO's annual target of 215 million AFN just six months into the year. The MTO also exceeded targets for numbers of tax returns filed, achieving 3807 total filings over the project Year 2 and increasing Q4 returns by a 34% over the same period in 2010 (see graph at left). In addition to audit activities, the Herat MTO results were also achieved due to higher taxpayer compliance as a result of targeted taxpayer education, and increased revenues from withholding tax collection.

The Mazar MTO experienced similar successes in revenue collection and number of returns filed. **The Mazar MTO collected a total of 129 million AFN for FY1389, more than doubling its goal of 60 million AFN for the year.** The MTO also exceeded targets for numbers of tax returns filed over EGGI's Year 2, achieving 3638 total filings for that time period and far outpacing the cumulative target for that time period of 2300. Like in Herat, these results demonstrated higher taxpayer filing compliance, showing the beneficial effect of targeted taxpayer education efforts and the overall development of the MTO's capacity. With the project's assistance, Herat also continued a weekly radio program on taxpayer compliance but also targeted special segments such as clinics, private schools, and broadcasters both in radio and television to educate them on the need to file and pay as legally required. The performance of both Herat and Mazar MTOs from April to September 2011, compared to the same six-month period in 2010, is shown in the graphs above and demonstrates the positive growth trends for both MTOs.

*Continued on page 13*

**Herat MTO Comparison of Tax Returns Filed between 21 Mar - 22 Sep 2010 and 21 Mar - 22 Sep 2011**



# Provincial Tax Administration

Continued from page 12

While the Herat and Mazar MTOs showed clear performance success throughout the year, the Mazar MTO did experience setbacks like the removal of the MTO's taxpayer service center operation—which is critical for delivery of taxpayer education and outreach—after the filing season of 2010. However, In January 2011 the project was successful in facilitating reinstallation of the service center, and assisted with the delivery of weekly taxpayer education seminars leading up to the tax return filing season in March 2011. The seminars were instrumental in providing taxpayers with the knowledge needed for complying with filing and payment requirements, and were integral to Mazar achieving its collection goals as noted. Both Mazar and Herat MTOs continue to provide taxpayer education and EGGI continues its assistance to help improve revenue mobilization.

**In February 2011, the project also supported development of a new MTO in Jalalabad based on the model set in Herat and Mazar.** Tax administration advisors worked with the Mustofi in Jalalabad to agree to provide functional office spaces for the creation of the MTO, which was a milestone achievement. However, security issues stalled progress and prevented EGGI staff from working on the ground at the MTO, leading to diminished ability to provide needed assistance. Project advisors participated in delivery of induction training, but were not able to rollout delivery of the full training program that is necessary to achieve performance to the expected standards for implementing Afghanistan's tax compliance program. The project's advisors will look to keep developing the MTO in Year 3.

While at different points in overall development, each of the EGGI-supported MTOs in Herat, Mazar, and Jalalabad showed significant development during Year 2. Indicative of the MTOs' respective development are their total revenue collected and from what sources, shown for each MTO as comparison in the graphs at right.

## Conclusions/Lessons Learned

While the Mazar and Herat MTO's showed strong performance over the year, the closure of EGGI regional offices due to shifting priorities, temporarily stalled achievement of some workplan objectives. Following project reconfiguration, the Year 2 workplan was redesigned to incorporate effective solutions for working with provincial MTOs without a permanent expatriate presence. One such solution was by leveraging local national staff to provide this assistance. Another solution was for periodic short visits from advisors to provide monitoring and oversight. Even though the foundation for many Year 2 successes was due in part to having a physical presence in the provinces during the first half of the year, the project was still able to advance provincial tax administration goals through the aforementioned solutions.

In April 2011 the project proactively sought to transfer two staff members from Jalalabad and one from Mazar into the tax administration workstream to allow for a smooth transition of the work that was performed by expat advisors. However, the project was forced to terminate the two staff in Jalalabad for fraud, while the Mazar employee was lost to a new USAID project. Two employees were promptly hired in August 2011 to fill the Mazar vacancies but were subsequently lost to other donors, stating uncertainty of the next contract as the reason for resigning. The first lesson learned is to be more vigilant in

educating all employees in prevailing ethical principals to eliminate unethical practices. All employees are required to attend seminars on ethics. The project has also endeavored to better scrutinize all employee submissions for reimbursements through management oversights and reviews by the Operations manager. The second lesson is to be more aware of the local talent market. The project's HR team is conducting an assessment of the local market, prevailing wages, etc., and working with the tax team to attract and maintain top talent.

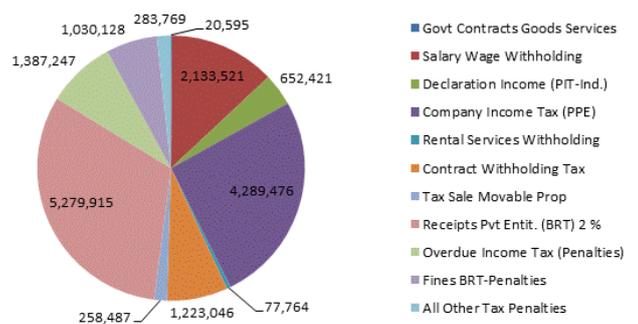
In Year 3 even better levels of on-site assistance will be provided by completing the hiring process of staff in Mazar and Jalalabad, bringing MTO staff to Kabul for targeted training, and through highly structured quarterly on-site trips that allow the expatriate advisor to maximize time spent on-site with MTO staff in the provinces.

## By the Numbers:

EGGI-supported MTOs collected a total of 87.5 million AFN in Q4 FY2011, the highest quarterly revenue collection to date.

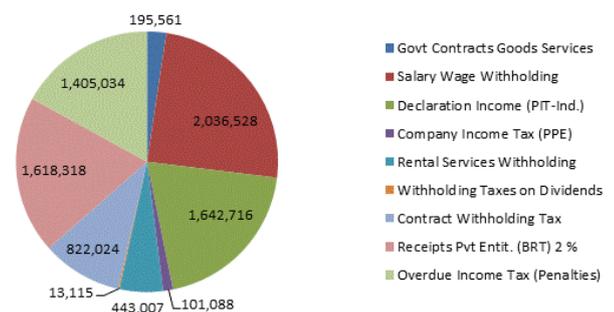
### Herat MTO Revenue Collected during 23 August - 22 September 2011

Total: 16,636,369 AFN



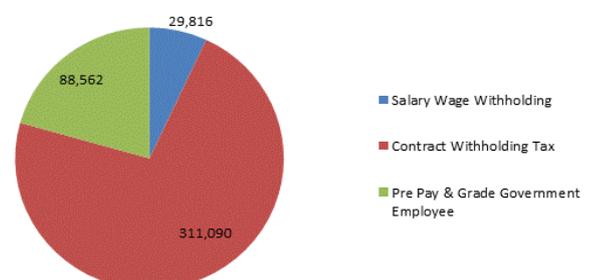
### Mazar MTO Revenue Collected during 23 August - 22 September 2011

Total: 8,277,391 AFN



### Jalalabad MTO Revenue Collected during 23 August - 22 September 2011

Total: 429,468 AFN



## Training Summary

**Year 2 Tax Administration Total:**  
**20 Participants, 60 Person-days training**

20 male participants



0 female participants

Each  = 10 participants

## Policy Support to the Office of the Minister of Finance

### Background

The Minister of Finance is the main champion for economic and fiscal reform in Afghanistan. His office is responsible for management oversight of the MoF and also has the lead for the negotiation and implementation of financing agreements with key international financial institutions such as the International Monetary Fund (IMF) and the World Bank. Effective policy advisory support in this area is vitally important as this will help the Minister to effectively oversee the development and implementation of sound economic policies that promote macroeconomic stability, growth and the conditions for sustainable job creation. The EGGI project's strategic objective for this workstream was to strengthen GIRoA and the MoF's capacity to develop and implement sound fiscal and economic policy at the national and regional levels.

### Year 2 Results with USAID/EGGI Assistance

The major activity of this workstream during Year 2 was supporting the MoF in negotiations on external financing agreements. With the project's analytical support, **the Minister of Finance completed negotiations to have Afghan debts exceeding USD 1.025 billion forgiven by Germany, Russia, and the United States.** This accomplishment helps to remove the burden of historical debt and the impact of the associated interest payments on the country's finances. The project also helped guide the Minister's office in negotiations with the International Monetary Fund (IMF) on the 3-year, USD 125 million Extended Credit Facility (ECF) program. The ECF was meant to replace the Poverty Reduction and Growth Fund (PRGF) lending program that expired in August 2010 and came with conditions that included macroeconomic reform and a timetable for the implementation of a value-added tax (VAT) by 2014.

The project's advisors continued to work closely with the Minister on discussions with the IMF and provisions of the ECF on revenue mobilization and financial sector reforms. By September 2011, most of the conditions for the ECF had been met, and agreement was reached to allow the ECF to be drawn down later in the year (subject to resolving financial sector issues) following a consultation mission by the IMF to Kabul also in September. Finally, the project assisted the Minister in **negotiations with the World Bank leading to a provision of \$50 million from the Afghanistan Reconstruction Trust Fund (ARTF) for the Education Quality Improvement Program (EQUIP II),** designed to increase access to quality basic education through school grants.

All of these agreements were vital steps in moving Afghanistan towards ultimate fiscal sustainability, with sufficient domestic revenues to meet budget expenditure and current debt servicing costs. While this goal is still several years in the future, the project's work in Year 2 helped GIRoA make clear progress in that direction.

The project also supported the Minister in negotiations to secure funding for priority projects from other international donors. In October 2010, the Minister signed a **€22 million financing agreement with the German Federal Ministry of Economic Cooperation and Development (KfW),** to support the financing and construction of the Kunduz-Kholm National Highway in northern Afghanistan. The financing will provide an important new component of Afghanistan's infrastructure helping to facilitate commerce in the northern region.

The project further supported the Minister of Finance in preparation for discussions with donor representatives on the status of Afghanistan's National Priority Programs (NPPs). With 14 out of 22 programs fully designed or at advanced stages of preparation at the time of the meeting in July 2011, donors indicated their willingness to fund the programs provided that an IMF program remains in existence. In the wake of these discussions, submissions on bids for fund-



Finance Minister Dr. Omar Zakhilwal (right), and Michael Wenzel, German Federal Ministry of Economic Cooperation and Development, celebrate a €22 million agreement to finance construction of the Kunduz-Kholm National Highway in northern Afghanistan.

ing NPP-aligned projects from provincial line directorates were then solicited for the 1390 Budget.

Another key component of the project's policy support in Year 2 was to facilitate the initiation of the Tax Policy Working Group, which the project and other revenue-related units in the MoF recommended the Minister to establish. Launched in October 2010, the goal of the Working Group is to resolve key tax reform challenges facing the GIRoA. Comprised of representatives from the Revenue Department, Customs Department, Fiscal Policy Unit (FPU), and advisors from EGGI and another implementing partner, the Working Group met with the IMF through October-November 2010 to discuss critical tax issues, such as the structuring and timeline for a potential VAT. Project advisors facilitated multiple meetings with the IMF, and also helped design early plans for a VAT that can meet long-term revenue targets. The Working Group also convened to discuss the MoF's position on donor tax and customs exemptions; members of the group voiced a need for a universal framework for future exemption agreements, and asked the Minister to nominate a body to determine a standardized approach to donor customs and tax exemptions.

The project also assisted the MoF to convene two "reform" retreats in the first half of Year 2. During the retreats, officials developed action plans for 2011 for five key MoF departments. After consultation with key MoF stakeholders, officials segmented the plans into 100-day periods to make for achievable milestones. Concurrent with this reform effort, **the project's advisors produced a reform plan for the Minister's Chief of Staff in order to strengthen information flows between the Minister and the MoF,** to enable the Minister to produce effective policies, and to facilitate accurate policy execution on the part of Ministry staff.

### Conclusions/Lessons Learned

One of the dominant lessons learned from Year 2 pertained to advisors' access to confidential or sensitive MoF data, or information related to GIRoA negotiations with international entities, as a result of their assistance. In multiple instances, advisors had to navigate between expectations of confidentiality on the part of the MoF and pressure by donors to supply important MoF data externally. This created conflicts of interests for advisors, making effective assistance to the counterpart more difficult.

Additionally, while the project's assistance to the Minister facilitated agreement on important financing agreements and revenue mobilization plans that helped set Afghanistan on a path towards fiscal sustainability, the fiscal environment will be substantially impacted by the 2014 transition and changing donor involvement. The machinations of these changes may substantially affect reform efforts moving into the future, and could impede fiscal progress.

# Support to the Fiscal Policy Unit, Ministry of Finance

## Background

Afghanistan is rebuilding essential public services following many years of neglect. To provide for this effort, revenue must be raised and funding must be allocated to operating needs and to development priority areas. The MoF's Fiscal Policy Unit (FPU) helps coordinate this process, analyzing revenues and expenditures and ensuring that the budget process is comprehensive and policy-based (Afghanistan domestic revenues in 2010-11 can be seen in the graph at right). Since both the revenue and expenditure sides of GiRoA's budget are affected by a range of national and international economic, monetary, security, and social factors, the FPU needs to be able to properly analyze this complex set of factors. The project provided advisory support in a number of these areas during Year 1, and in Year 2, continued to develop the FPU staff's capacity to conduct complex fiscal analysis and reporting, and produce reliable forecasts of revenue, expenditures, and macroeconomic conditions. Building capacity for the FPU to complete analysis of these fiscal balance factors and to provide advice to the Minister of Finance is key to facilitating continued economic growth and improved governance.

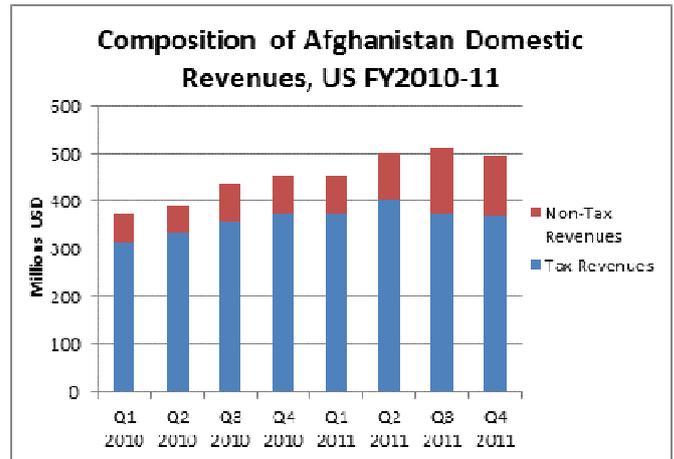
## Year 2 Results with USAID/EGGI Assistance

In Q1, the project assisted the FPU to update its Revenue Projections model, which is used to determine GiRoA's estimated future collections of tax, customs and non-tax revenues for inclusion in the national budget. The model was updated to reflect new baseline revenue data for 1388, and was then used to project expected revenue flows over the forthcoming fiscal year (1390) and two subsequent years. The model also provided input into the Medium Term Fiscal Framework (MTFF) planning process, in which the MoF Budget Department establishes budget expenditure ceilings taking into account available funding sources. The project's advisors built the FPU's capacity to use the model by creating a user manual and guiding personnel how to use it effectively.

In the early part of 2011, the project's advisors helped promote linkages and facilitate the relationship between the FPU and other relevant GiRoA stakeholders. Project advisors supported the FPU's involvement in the MoF-led Tax Policy Working Group sessions, preparing background analysis and technical needs assessments of tax policy functions in the MoF. Advisors facilitated the relationship between the FPU and the Monetary Policy Department (MPD) of the Central Bank (DAB) on macroeconomic policy issues. This relationship helped the FPU in incorporating a fuller DAB perspective into policy discussions and analysis; however, the communication between parties largely ceased in February 2011, partly as a result of events in the banking sector, and the project's exit from DAB activities reducing the ability to support the relationship. Additionally, during the IMF mission on the Extended Credit Facility (ECF), project advisors facilitated technical discussions between FPU staff and the IMF mission team members and helped the team members obtain relevant fiscal data for the mission.

Throughout the rest of the second quarter, project advisors continued to contribute ad-hoc analysis on the FPU's policy work in several areas. Key activities included: completion of analysis on GiRoA budget execution performance over FY1389 for inclusion within the MoF's 3rd Quarter Fiscal Bulletin for 1389; developing a concept note for the Minister of Finance on the expected economic benefits of VAT implementation; and providing strategic guidance on the FPU's contributions to MoF tax policy working group sessions.

Finally, at the end of FY11, a former IMF senior staff member demonstrated an improved modeling framework for the MTFF, but was not able to train the FPU staff in the use of the EViews package



in which the improved model was embedded. The inability of the FPU to use the new framework identified a clear need for training in simple to mid-level econometric and simulation modeling techniques; the project's current Team Lead in Fiscal Policy will provide such training for FPU staff using the EViews package in the first half of the project's Year 3. This training will be critical in providing the foundation for FPU members to understand and eventually adopt the new version of the MTFF.

## Conclusions/Lessons Learned

The biggest challenge in developing the FPU's capacity in Year 2 was simply the unit's limited resources of only five staff and a manager. The FPU has until recently focused on the development of the MTFF for budget planning and on budget expenditure analysis, but is taking action to increase staff numbers and build capacity in tax analysis and revenue forecasting. However, this still leaves the unit without capacity to perform macroeconomic analysis and provide a comprehensive Medium Term Economic Framework to guide a fiscal strategy that takes into account all aspects of the Afghanistan real economy, external trade and monetary policy influences. With ten or twelve staff, the FPU may be able to perform such an extended range of functions satisfactorily. The coupling of the FPU's small size with the constriction of the project's support in this area also contributed to model development and implementation being started but not taken over by the FPU staff.

Also owing to its small size, the FPU's already significant time demands to produce regular reports and ad hoc contributions created difficulties in coordinating technical assistance received from donors. While multiple implementers provided this assistance, the FPU's small footprint meant that this work was often not coordinated or overlapped unconstructively. The lesson learned is that it is important for donors and implementing partners to obtain counterpart agreement not just on focus areas and activities, but also on specific timing and sequencing of tasks in advance of delivery.

## Control and Audit Office (de-scoped July 2011)

### Background

A 2010 capability review of Afghanistan's Control & Audit Office (CAO) by the U.S. Special Inspector General for Afghanistan Reconstruction (SIGAR) highlighted that the CAO lacked sufficient capacity and required assistance, especially in the areas of training and competency development. The CAO claimed to be performing over 900 hundred audits a year with a staff of less than 200 professionals, an impossible amount of audits to perform for any audit function with a staff of this size; in comparison, the U.S. Government Accountability Office (GAO) has a staff of approximately 3,200 and performs around 1,000 audits per year. Additionally, Afghanistan's existing legislative provisions for external audits are rudimentary, and the institutional capacity of CAO remains weak. In most countries, Supreme Audit Institutions report directly to the legislative branch, but the CAO in Afghanistan still reports to the executive branch. CAO's independence also does not fully comply with international best practices with regards to staffing, budget, mandate, and discretionary authority. This lack of independence from the government allows the executive to influence which reviews are undertaken by the CAO and may limit openness in reporting.

As a result of these factors, the CAO workstream was added to the project's Year 2 workplan to assist the CAO with its capacity building to develop an independent audit governing body. Specifically, the project planned to supply technical assistance to support audit and accounting capacity building in the CAO through classroom training on audit fundamentals, on-the-job training, and development of an audit manual with an end-state objective of a strengthened external audit framework (a criterion for expanding U.S. Government financial assistance through the national core budget). The workstream also was charged with providing technical feedback with respect to the various drafts of the national audit law legislation.

### Year 2 Results with USAID/EGGI Assistance

The project's support to the CAO began in September 2010 with one of the team's four planned advisors, but the full team was not realized until late November 2010. In that timeframe the team identified multiple inconsistencies with the CAO's audit approach and methodology performed by various CAO auditors and managers. After the team's assessment and delivery of a strategic plan for building CAO's capacity to USAID in December, formal training and on-the-job training began in January, as did the initial development of an audit manual. The training came in the form of a "Principles of External Audit Training" course which covered auditing fundamentals, phases of the audit, internal control concepts, and key terms and considerations. **Project advisors trained 51 CAO staff.** The training provided was specifically recognized by CAO staff and management as the best training received during eight years of donor support to the CAO.

During the Spring of 2011, the project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. Assistance to the CAO was de-scoped for the remainder of the contract year and the workstream was successfully wound down in accordance with the realigned priorities by July 2011. During Q2 the CAO team was subsequently reduced from four advisors to one and focused on developing a standard audit methodology and manual for the CAO. The goal of the manual was to provide a basis for future audit work that the World Bank (WB) would support. The team proposed to USAID and WB a capacity-building approach that would have expatriate advisors lead the audit fieldwork of financial audits, with CAO auditors shadowing them. This approach provides the donor community assurance that more than 90% of Afghanistan's development budget and more than 50% of the operating budget is properly audited by an external source with an accepted audit methodology by 2014. The WB expressed gratitude to the project for the strategy



EGGI's CAO Advisor discusses the CAO Audit Manual with CAO leadership. By explaining the procedures in detail and answering questions, EGGI increased the likelihood that CAO will utilize the methodology when conducting future audits.

put forth, and noted the value of the project's continued work on an audit manual that will assist them in their shadowing approach by providing an audit methodology.

On May 31, 2011, the project team **delivered a modified audit manual that outlines a standard audit methodology**, segmented in six modules (introduction, planning, internal control, fieldwork/testing, reporting, and appendices). Throughout the audit methodology, the Afghan auditors are encouraged and expected to reassess the riskiness of audits and adjust the audit plan accordingly, which is a significant departure from the CAO approach to date. The delivery of the manual itself will not, however, build capacity at the CAO; the office still needs significant support to continue to mature and operate as a fully functioning audit entity. The English version of the audit manual was also translated into Dari to improve utility to the CAO, and was socialized with CAO management through July 15, 2011.

The project team also provided significant support to the CAO over Year 2 with respect to the National Audit Law. In Q1, the project conducted a comprehensive review and assessment of the current law, which was found to be inadequate in multiple areas. In response, the project worked to help draft improved legislation that strengthened audit functions, and coordinated stakeholders to support CAO lobbying efforts for the new law. **These efforts contributed to a new law passing the Cabinet in March 2011, achieving a first step in raising Afghanistan's audit standards and providing a stronger foundation for the CAO.** However, the bill has never passed the Afghan Parliament, and remains in draft status with GIRoA unable to agree to final language or requirements.

### Conclusions/Lessons Learned

The biggest challenge in capacity building at the CAO over Year 2 was its relative capacity, notwithstanding more than six years of investment by other donor assistance at the CAO. Despite all of the assistance in helping to develop a Supreme Audit Institution (SAI), the project encountered an organization that could not differentiate between an external and internal audit. As a result, CAO demonstrated strong reluctance to accept an approach involving significant change to the way it operated; this included their audit approach and risk methodology. This paired with a lack of an national audit law led to de-scoping of EGGI's work where the project ended up focusing exclusively on adapting an audit manual with an accepted audit methodology that the World Bank could utilize in its integration efforts under the PFMR II work in the future. The development of a SAI cannot be remedied in a year, or three years – it takes significant investment and time. Given the state of GIRoA's capabilities and Afghanistan's collective knowledge of accounting and auditing, the CAO's development will still require a significant multiyear investment. This fact should be kept in mind for future donor assistance or projects that are planned to involve the CAO.

# Revenue Reconciliation Database (de-scoped March 2011)

## Background

A key component of fiscal reform in Afghanistan is improving how revenues and expenditures are tracked and accounted for throughout the country. The overall revenue and expenditure reporting system used by the MoF and the Afghanistan Revenue Department (ARD) is the Afghanistan Financial Management Information System (AFMIS); however, the capabilities of AFMIS to capture revenue data country-wide are limited. To address this issue, during Year 1 EGGI and the MoF collaborated to implement an automated revenue reporting system known as the Revenue Reconciliation Database (RRD) that would systematically account for revenues collected by GIRoA entities throughout Afghanistan. Before the RRD was in place, provincial officials had to manually send revenue information to Kabul, meaning financial information could remain unreported for upwards of one month. However, the implementation of the RRD enabled the MoF to integrate data on daily revenue collections throughout Afghanistan and manually upload the data to AFMIS.

In Year 1, EGGI designed, developed, and implemented the RRD in 32 out of 34 provinces in Afghanistan. Training on using the RRD was also conducted for GIRoA civil servants across the provincial Mustofiats and multiple central ministries. The goals for EGGI's RRD assistance in Year 2 were to extend RRD implementation to the remaining provinces and to additional GIRoA agencies, further integrating Afghanistan's country-wide financial reporting and improving availability of revenue data for the MoF and ARD. During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, the RRD workstream was de-scoped for the remainder of the contract year and the workstream was successfully wound down in accordance with the realigned priorities. In Year 3, the RRD workstream was added back into the project's scope to support database maintenance and to develop a web-based revenue reconciliation system.

## Year 2 Results with USAID/EGGI Assistance

In Q1 of Year 2, the project installed stand-alone RRD databases in two additional provincial Mustofiats, completing RRD installation in all 34 of Afghanistan's provinces. Installation was also achieved in a total of 38 ministries and other government offices. Stand-alone databases were installed because at the time of planning and installation, a number of Mustofiats still lacked the appropriate information technology infrastructure to accommodate a web based system. EGGI retained programmers and technicians who maintained the databases and provided technical support when issues arose.

Accomplishing this infrastructure for RRD installation and support helped allow for the timely reporting of financial information in a manner compatible with AFMIS that was unavailable before the RRD. EGGI's efforts significantly reduced the time for financial data to be entered into Afghanistan Treasury records, thereby allowing the gov-

ernment must faster access to vital revenue data. The RRD databases captured comprehensive financial information including all paid taxes, customs duties, traffic, motor vehicle licensing, and fines. Ministries that historically reported financial data through ledgers were also radically transformed to an automated process that reduced paper and significantly expedited revenue reporting.

During the course of Year 2 assistance, **EGGI also conducted training for all RRD operators and stationed technicians in all major Mustofiats to assist with data inputs, uploads and**

### By the Numbers:

By March 2011, EGGI had installed the RRD in all 34 of Afghanistan's provinces, and in 38 ministries and other GIRoA offices

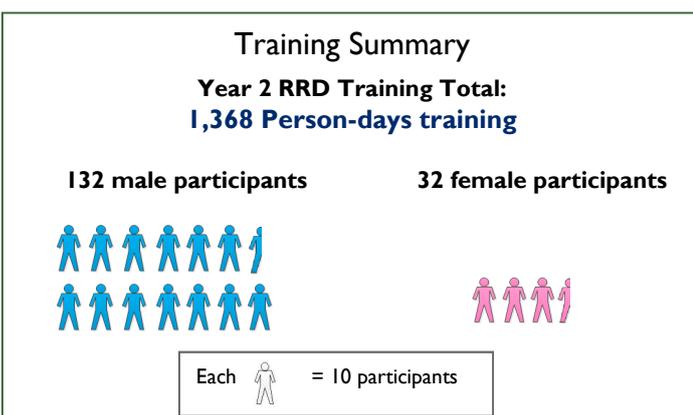
**extractions, and to conduct database repairs as necessary** (training data shown below). EGGI's efforts built GIRoA's marginal capacity to own and maintain the RRD system, but the MoF and Mustofiats still relied on EGGI for in-depth technical assistance and to address system issues.

In March 2011, the RRD workstream was ended as a part of EGGI's "right-sizing" changes. EGGI's expatriate advisor and CCN technicians assigned to the RRD were released. In the wake of these changes and without consistent maintenance, RRD users were unable to address periodic malfunctions, causing revenues to go unreported. During Q4 2011, EGGI made repairs to 14 databases in provincial Mustofiats and line ministries, in partnership with MoF staff who the project trained to be able to take over continued maintenance. However malfunctions persisted due to user error and the lack of Mustofiat and line ministry institutional knowledge in database management/maintenance, as documented in an EGGI report released in September 2011.

## Conclusions/Lessons Learned

The major lesson learned for EGGI's RRD work in Year 2 was the need to obtain better information from stakeholders as to their respective needs and the best manner to deliver a product to satisfy those needs. While EGGI rapidly built and implemented an effective RRD system with wide geographical reach, it became clear that maintenance of the RRD across all provinces was too difficult for practicality given the geographic dispersion. When EGGI's dedicated RRD workstream was ended in March 2011, these issues were exacerbated and resulted in service gaps due to GIRoA's inability to maintain the databases. The project will be implementing a web-based solution for the MoF in Year 3 that will address these issues, but a more thorough analysis conducted when the RRD was originally implemented may have identified this solution as the best way to deliver services and minimize maintenance.

Another key lesson learned was the need to have a clear transition plan for provincial modules of the system to GIRoA, and to ensure that GIRoA possessed the capability to adequately maintain these modules. As EGGI was installing the RRD databases, the ARD should have been required to assume ownership as soon as the database was installed in each province; however, this never occurred, causing significant problems after the workstream ended as part of the EGGI "right-sizing." Additionally, EGGI failed to insist that ARD provide adequate resources to allow for the training of technicians and adequate backups, especially in remote provinces. Technicians also received minimal training from the ARD, and those with training seemed to be reassigned arbitrarily, leaving provincial databases neglected. These experiences show the necessity of having a clear plan to transition technical capabilities to GIRoA counterparts, as well as requiring that GIRoA has the technical capacity to maintain any system that an external party delivers.



# Policy Support to the Ministry of Economy (de-scoped August 2011)

## Background

Afghanistan is still rebuilding essential public facilities and services following many years of neglect. Poor execution within GIRoA's development budget remains problematic. One cause is that poorly prepared projects are often included within the development budget, which is often due to inadequate and unclear guidelines for project preparation. The Ministry of Economy (MoEC) is responsible for supervising the design and selection of construction and other capital projects in the Afghanistan development budget, and monitoring implementation of the Afghanistan National Development Strategy (ANDS). The MoEC's duties include determining the feasibility and merit of all development projects, and communicating to other line ministries the process requirements for project design and criteria that projects must meet to be eligible for consideration.

For Year 2, the project's support to the MoEC focused on helping fulfill these duties by facilitating the development and promulgation of the required standards for Public Investment Program (PIP) proposals and submissions. The project also set out to provide targeted policy advice to broadly help the MoEC to implement the ANDS.

During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, technical support to the MoEC was de-scoped for the remainder of the contract year and the workstream was successfully wound down in accordance with the realigned priorities.

## Year 2 Results with USAID/EGGI Assistance

Across Year 2, the project provided principal policy advice to the Minister of Economy and his senior officials to advance the economic reform agenda as set out in the ANDS and re-affirmed during the July 2010 Kabul conference. Strategic advice was provided on institutional reorganization and improved business processes (such as improved guidance on the preparation of PIP proposals). The project also assisted senior MoEC officials in preparing **key policy documents on the ANDS and on bolstering the role of the MoEC in economic policy formulation in Afghanistan.**

As a follow up to the July Kabul Conference, the project assisted the MoEC Policy General Department with policy papers concerning the new PIP process. The first was a concept paper on policy coordination among stakeholders in the MoEC and across GIRoA. The Minister later presented it to the Economic Committee of the Cabinet to launch discussions on the PIP with line ministries. The presentation marked the first step in the MoEC's two-pronged effort to improve and upgrade the existing PIP process. The second policy paper the project helped draft was on guidelines and instructions for PIP process preparation. The project produced three documents on the PIP process following discussion with the Minister and other senior MoEC officials; these documents were then translated for larger internal discussion and re-reviewed with the Minister and Directors General within the MoEC. Support was provided for MoEC to communicate these draft guidelines informally and seek feedback from line ministries prior to incorporation of the "Upgraded PIP process" into the FY 1391 Budget Circular process.

As Year 2 progressed, the project supported the MoEC in its role as the premier ministry that supervises the design and selection of projects in the Afghan development budget/PIPs. Using the findings from the Functional Audit and Training Needs Assessment conducted in Year 1, the project identified proposed structural changes for the main departments of the MoEC. While the results had been discussed with the Minister, the presentation to and acceptance by the Minister and Deputy Ministers was not achieved prior to the end of technical assistance. Consultations were conducted with

MoEC managers on some of these proposals, but the work did not develop into a full MoEC organizational change plan prior to the termination of project support.

Beginning in January 2011, the project assisted the MoEC General Department of Policy and Monitoring and Evaluation (GDPM&E) to design and implement an Action Plan for the ANDS Annual Report. This report was intended to monitor implementation progress of projects in the development budget/PIP, and would allow donors to follow the progress of GIRoA in implementing the new PIP process on an annual basis.

To build staff capacity at the MoEC, the project helped MoEC officials design a **training document on provincial development planning (PDP) to structure the development of the PIP.** This was a collaborative program with the UNDP/ASGP program to train civil servants in difficult and unstable provinces. The document was translated into local languages, and was intended to help standardize project preparation approaches at the provincial level and improve the quality of projects submitted for the 1390 budget.

Finally, with the aim of ensuring sustainability of attempted reforms to the PIP process, the project built off of previously prepared training documents to prepare a concept paper on training for the PIP for ministry leadership. The training approach and paper covered the training-of-trainers method utilizing program budget teams to help line ministries prepare projects for the PIP. To promote coordination and enhance potential benefits by leveraging other donor efforts, the paper recommended a program for mentoring line ministries using the existing Civilian Technical Assistance Program (CTAP). When project support ended in March 2011, it was proposed that the training of line ministries in "Upgraded PIP" project preparation could be implemented and monitored by the new UNDP-GOI technical assistance program in the MoEC.

## Conclusions/Lessons Learned

The lack of qualified and experienced staff in the MoEC Policy Directorate hampered the ministry's ability to designate policies and guidelines to improve the selection process for development projects across the government. This ongoing challenge was highlighted in the MoEC Functional Assessment Report, produced by the project in 2010. Resourcing difficulties remained problematic for the MoEC across the project's areas of assistance; without better qualified staff in all of its directorates, the MoEC will be unable to fully accomplish its mandate as the ministry in charge of designing and facilitating the selection of projects funded by GIRoA's development budget.

Given the above context, the areas of the program that showed the least progress were the consultations on internal reform and the proposed functional restructuring of the MoEC. The MoEC still lacks the internal capacity to manage such a significant change process. The achievement of progress in most other areas was due to the experience of the project's advisor, and concerted efforts to engage technical MoEC staff in the processes needed to develop the PIP and PDP instructions and guidelines through extensive on-the-job coaching and mentoring. With the final documents approved by the MoEC and the MoF being translated into local languages, made available to line ministries and provincial budget directorates, and supported by inclusion in the official Budget Circulars, there is a good probability the quality of PIP and PDP investment proposals will be improved. It is also anticipated that development budget execution rates will increase. However, without further technical advice and support, the MoEC still lacks the ability to provide necessary levels of support to ministries to achieve ongoing improve-

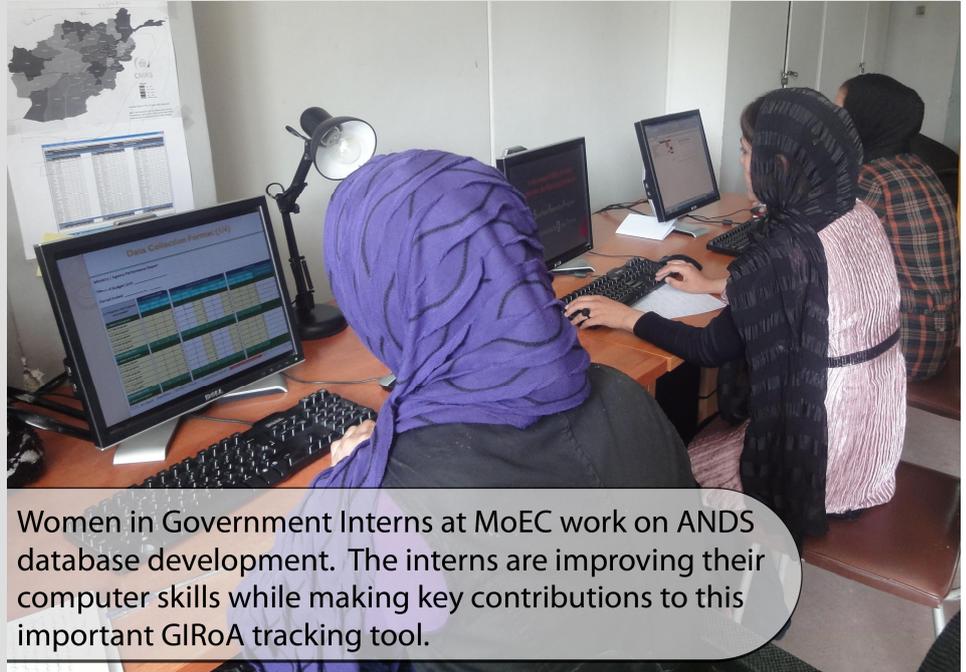
# Cross-Cutting Initiative: Gender Mainstreaming

## EGGI Promotes Opportunities for Women in Government

Gender equality and women's empowerment are strongly linked to economic growth and the overall achievement of USG objectives in Afghanistan. Like most of the developing world, gender equality in Afghanistan is undermined by historical imbalances in political participation, access to resources, and rights. Women are still widely under-represented in decision-making at all levels from the household to the public sphere. Over the life of the project, EGGI has worked toward developing gender programming consistent with USG goals to ensure that women are included in the development process.

In February 2010, the project launched the Women in Government (WIG) internship program to provide opportunities to young women to gain exposure and work experience in government, and an opportunity to develop the technical skills necessary to compete for employment opportunities in a male dominated workforce. The WIG program emphasizes assistance to build women's capacity to participate fully in Afghan society through providing opportunities historically unavailable to women and exposure to GIRoA activities thus enhancing their ability to contribute to the development of Afghanistan. The internship program targets solutions to address inequities by giving women a chance to participate in GIRoA. To enable the women to start learning about financial management and independence, the program also includes a monthly stipend.

Since the program's inception in February 2010, 33 interns successfully completed six-month internships with GIRoA entities. A key objective of the program is to support women to obtain full-time jobs following successful completion of their internships. The WIG program's success in this area is evidenced by the program's 85% job placement rate.



Women in Government Interns at MoEC work on ANDS database development. The interns are improving their computer skills while making key contributions to this important GIRoA tracking tool.

### The WIG program offers 6-month internships with GIRoA to provide:

- ⇒ Exposure to the work and impact of GIRoA or related entity
- ⇒ Work experience to assist with gaining long-term employment with GIRoA or related entity
- ⇒ Professional skills development
- ⇒ Exposure to government culture, and "new" industries that will be regulated by government or independent agencies
- ⇒ Networking opportunities with fellow interns and program alumni

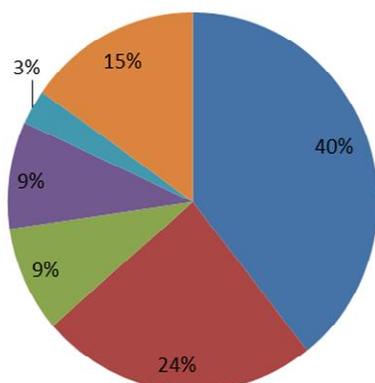
The project works closely with GIRoA counterparts to identify the best placement opportunities that will allow interns to make meaningful contributions to the goals of their as-

signed ministries. EGGI conducts a comprehensive assessment of potential supervisors to ensure they are committed to providing professional growth opportunities to the interns and open to providing full-time employment upon successful completion of the program.

To bolster capacity development and supplement practical, on-the-job training obtained during internship assignments, the project delivers formal training and skills-building workshops. The program also incorporates an internal monitoring and supervision system that includes coaching and technical skills development throughout the duration of the internship. Workshop curriculum is based on identified skill development needs. During Year 2, the WIG team held 12 workshops on topics ranging from basic office and administration skills, to current topics in gender.

*Continued on page 25*

### Women In Government Internship Program Alumni Job Placement



- Number employed with the private sector - 13
- Number employed with GIRoA - 8
- Number employed with EGGI - 3
- Number in the hiring process with GIRoA - 3
- Number in the hiring process with EGGI - 1
- Number Applying for jobs - 5

### Intern Spotlight



Suria, a former intern at AISA, received a full-time job with the Ministry of Labor and Social Affairs to work on the Peace and Reintegration Program.

# Cross-Cutting Initiative: Gender Mainstreaming

## EGGI Promotes Opportunities for Women in Government

*Continued from page 24*

In September 2010, the project facilitated a workshop for interns on presentation skills and business writing. The workshop provided interns with the opportunity to participate in interactive capacity building exercises including delivering group presentations, and discussions on the importance of teamwork and networking strategies. The project collected feedback from the interns to gauge interest in topics for future workshops.

**"We were in a classical era where women did not hold positions within government institutions. Now it is time to move beyond the classical era into a modern era."**

*—Director of Economy, Balkh province*

A successful internship relies heavily on commitment of the host ministry to foster development of interns and advance WIG goals. To ensure internships are running smoothly, EGGI conducts regular monitoring and evaluation of the interns in their assigned ministries. This oversight mechanism allows the WIG team to proactively address any issues that might arise during the internship and ensure that interns are contributing in meaningful ways to the host organization's mission.

The project's efforts to foster strong counterpart relations have yielded positive results. At the MoEC for example, the interns' supervisor, Mr. Saroosh, is thrilled with the performance and professionalism of the interns. "These women are motivated and do great work," he said. The interns are working to develop a database to track ANDS progress. MoEC staff are teaching the interns about the



EGGI facilitates a Women's Business Association roundtable event in Mazar. The strategy behind holding roundtable events is to foster networking and information sharing, and provide a forum to discuss challenges facing women-owned businesses.

ANDS to provide a more complete learning experience in addition to working with them to support database development. "It is important the interns understand ANDS," said Mr. Saroosh. "The interns are really helping us and it is my duty to also help them learn about this important strategy." This level of commitment shows that EGGI has been able to develop good relationships with GIRoA officials who are dedicated to the WIG program and that it is providing value to GIRoA.

Although the WIG program is based in Kabul, during the second quarter, EGGI's gender team worked to establish relationships with counterparts in Mazar, Herat, and Jalalabad to generate enthusiasm and stimulate interest in WIG at the provincial level. Initial response to this initiative was positive from both potential counterpart institutions hosting and the supporting universities. In order to identify the best candidates for the internship program, the WIG team met with various deans and faculty of universities in regional hubs to select qualified candidates for interviews. Due to the closure of EGGI regional offices, internships were not offered outside of Kabul. However, the project built a strong network with partners in these locations and has an ideal framework from which to launch the program in the provinces should the opportunity arise.

As evidence of the WIG program's successes, the Balkh Director of Economy expressed his strong support. "We were in a classical era where women did not hold positions within government insti-

### Intern Spotlight



**Amina, a former intern at MoF, is now a full-time customs manager at MoF and special advisor to the DM of Customs.**

tutions. Now it is time to move beyond the classical era into a modern era. EGGI [WIG] is supporting this shift towards a modern era. I am a strong supporter of programs such as these because they provide unique opportunities to Afghan women."

### EGGI Fosters Networking across Afghan Women's Business Associations

In addition to the WIG program, the project supported gender objectives by bringing together women entrepreneurs to discuss challenges, brainstorm solutions, and promote networking. In December 2010, EGGI facilitated a roundtable with 20 women's business associations and Afghan NGOs in Mazar. Each organization delivered presentations about their business. EGGI staff introduced the grants program and the Balkh Private Sector Development Strategy, and how women's organizations could participate in both efforts.

*Continued on page 21*

EGGI's Engeela Farzan leads a session on business writing during a September 2011 Workshop for WIG interns



# Cross-Cutting Initiative: Gender Mainstreaming

## EGGI Promotes Opportunities for Women in Government

*Continued from page 20*

Ms. Freba Majid, Director of Balkh Women's Affairs Directorate was among those who attended and endorsed the roundtable event as a "great opportunity of crucial importance for women to utilize in working on improvement of gender equality."

The event succeeded in bringing together Afghan business associations whom had never previously met. The project's strategy was to encourage the organizations to network, develop long-term relationships, and ultimately create a sustainable forum to share information about the challenges facing women's business organizations. Most of the challenges described by the women's business associations centered on lack of access to capital to sustain results of their programs, and lack of information about other program activities. Participants were enthusiastic about sharing their program activities and learning from each other. Most of the women said they were unaware of the other women business organizations or cooperating economic development programs that existed in the region. After the event project staff distributed a contact list and encouraged the organizations to maintain their network by meeting again on their own, or through a community of practice.

EGGI also facilitated an Afghan Women's Business Association roundtable at the Nangarhar Chamber of Commerce. The purpose of the roundtable was to learn about women's business association activities in Nangarhar province and identify issues that women-owned business currently face. Representatives from 15 women's business associations attended the roundtable. Association representatives provided short presentations on focus areas of their organization's current work. The organizations varied by sector, target populations, and experience. Focus areas included activities supporting women working in the agriculture sector (pickles, corn, fruit), handicrafts, clothing designs, women's rights advocacy, institutional capacity building, legal aid, financial programs, and education. Several roundtable participants shared examples of the challenges women face, where again the theme centered on lack of capital to sustain a small business. Specifically, the biggest challenge discussed was the lack of access to low interest loans.

### Conclusions/Lessons Learned

One of the greatest challenges faced by recent female graduates is the difficulty of breaking into the job market to gain experience. The WIG program addresses this issue



EGGI's Grants Management advisor, Jennifer Whitehead, discusses the EGGI Grants Program at a roundtable event with representatives from leading women's business associations in Jalalabad

because it provides access to opportunities historically unavailable to Afghan women and enables them to build marketable job skills. However, just providing the opportunity is not enough; it is critical that interns' supervisors in GIRoA are committed to providing meaningful work and on-the-job professional development mentoring. In certain cases, an otherwise good internship can fail if the supervisor is not supportive of the program. This challenge can be mitigated through a thorough selection process to ensure GIRoA supervisors are committed to supporting the WIG mission.

During Year 3, EGGI will significantly expand the WIG program to provide internships to 60 recent graduates from local universities in Kabul. In the first quarter, the project will finalize programmatic design and formalize the WIG internship program business model and hire the first class of Year 3 interns. Toward the end of the first quarter the WIG team will hold a formal launch event introducing the expanded WIG program.

The WIG program will also incorporate volunteerism activities for interns and place more emphasis on networking and mentorship. The project will facilitate opportunities for current interns to work with local youth at the elementary and high school levels to share their experiences pursuing higher education and entering the job market. Interns will also be encouraged to work with vulnerable populations and serve as mentors to younger students. The WIG program will also place an emphasis on networking and teach the interns about this important professional concept. The program will offer quarterly

### Intern Spotlight



Asiaya was recognized by the Minister of Women's Affairs as a "very intelligent and talented professional." After her internship, Asiaya was hired as a full-time Project Account Officer at MoWA.

networking events for current and former interns, as well as launch social networking tools that will allow interns to stay connected with each other following graduation from their internships. Through these avenues, the EGGI project will encourage graduated interns to stay connected to the WIG internship program, building the networks of both current and former interns alike.

# Component 2(old): Financial Sector Development

## Economic Growth and Governance Initiative

### Component 2:Year in Review (Oct 2010-Mar 2011)

EGGI Financial Sector assistance focused on the continuation of USAID central bank reform in Da Afghanistan Bank (DAB). Advisors focused efforts in the areas of Monetary Policy, Legal and Regulatory Reform, Interbank Payments, Accounting, Operations, and Zone Branch Development. Support was also provided for the Financial Supervision Department (FSD), Islamic Banking, and assistance to a large bank Conservatorship. Through a collaborative process with USAID and DAB leadership, a mutually agreed upon workplan identified these workstreams to further enhance and build DAB's regulatory capacity. A team of financial sector development advisors provided assistance through onsite presence at DAB, to drive workplan objectives and provide immediate assistance on the many other day-to-day challenges facing the Central Bank. While it is important to note the project's strong counterpart relationships, advisory teams also established a marked level of increased professional independence in the counterparts.

In accounting and financial management, the project supported DAB to implement the Core Banking System (CBS) in 39 branches. This achievement benefitted not only DAB financial management operations, but led to significant improvements to service delivery, particularly in supporting GIROA revenue and expenditure operations. The project also helped the Bank expand its presence in the provinces through efforts to implement monetary policy department functions in the zone offices. With project support, DAB on boarded "zone economists" and launched the Survey of Regional Economic Activity (SREA) in three of seven zone offices. The survey is a mechanism to collect timely information on economic trends and conditions throughout the country, and provides critical information to policy makers to facilitate improved economic decision-making.

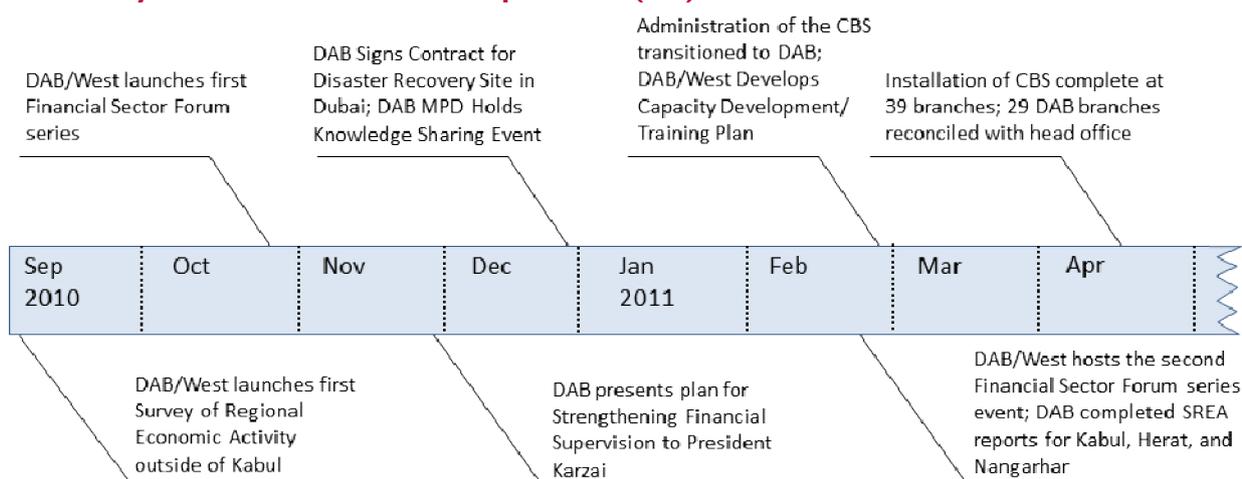
Strong progress was realized in the evolution of the legal banking framework. Significant amendments to the "Law on Banking" were finalized and presented for Parliamentary discussion. Such revisions will allow further maturation and growth of Afghanistan's banking system. Frameworks for Islamic banking services and micro finance, both critical to the local financial system, were developed and agreed upon with DAB leadership. In Payments, the National Payments Council (started during Year 1) met on a regular basis, creating forums for commercial bankers and DAB to discuss and debate challenges facing private bankers. Financial transactions through the Afghanistan Clearing and Settlement System (ACSS) continued an upward trend from the previous year growing 58% in the first two quarters of Year 2.

Finally, on-site and off-site bank supervision efforts provided expanded analytical tools for the FSD in its technical oversight over a complex distressed bank. From a nascent institution in 2002, the FSD had matured to a functioning organization. Much of the technical assistance provided was on a "demand" basis which allowed advisors to further customize the technical work to suit DAB's needs. Despite progress, there remains much to complete in the DAB program. As the system becomes more complex, FSD requires more training and exposure.

#### Year 2 Outcomes as a Result of USAID/EGGI Assistance:

- Enhanced transparency in payment of GIROA salaries:**  
 EGGI and DAB oversaw the installation at the Ministry of Finance (MoF) of on-line entry of transactions into the Afghanistan Clearing and Settlement System (ACSS). This has permitted a more timely, efficient, and transparent method for conducting government payment operations.
- Broadened sources of economic data for decision-makers:**  
 The project worked to raise the profile of the Bank's zone office branches in Herat, Mazar, and Jalalabad to conduct core central bank functions and provide much needed economic policy data to the Head Office. The SREA is implemented in three of seven target zones, with four regional surveys conducted during the first two quarters of Year 2.
- Supported deepening of analytical and statistical capabilities of MPD staff to maintain price stability:**  
 Through training to enhance analytical skills in the MPD staff were better to able to analyze economic conditions, project macroeconomic variables and consider consequent policy options, and report to a wide variety of stakeholders the state of economic conditions. By successfully performing these tasks, MPD supports the government's goals of maintaining price stability and reducing exchange rate volatility, both of which contribute to sustainable economic growth and lower unemployment.
- DAB ownership of modernization of IT infrastructure:**  
 DAB signed two key agreements to establish disaster recovery collocation services, and to finalize an agreement with Afghan Telecom for improved voice and data services at branch offices.

### Timeline of Key Events under EGGI Component 2 (old):



# Monetary Policy (de-scoped April 2011)

## Background

USAID assistance to Da Afghanistan Bank (DAB) since 2003 has resulted in building up competent staff, processes, and systems of the Monetary Policy (MPD) and Market Operations Department (MOD). At the start of assistance, the Central Bank's sole function was to print money to cover budget deficits and support directed lending. With multiple regionally printed bank notes circulating, DAB had limited control over currency issuance. Accurate figures on monetary data from which to conduct informed economic policy deliberation, therefore, were impossible to collect. There was no approach to economic research and analysis, and thus no mechanisms to influence economic and monetary conditions, two core central bank functions.

Eight years later, the Monetary Policy and Market Operations Departments at DAB are firmly established. A core set of activities, to include a more structured economic research and data collection program, strengthened capabilities in currency in circulation and national liquidity management, regularized foreign currency and capital note auctions, and a broad set of internal and external statistical and analytical publications to transmit policy actions and intended outcomes. Importantly, the "machinery" of end-to-end MPD and MOD activities has settled into place. From daily production of currency in circulation figures, foreign exchange rates, and movements in gross foreign reserves, the DAB's competencies in these areas have improved measurably, reflected in consistently achieving monetary targets under IMF assistance programs (see charts below). This level of maturity has permitted more informed policy deliberation and decision making by executive management, strengthened DAB's role and standing as fiscal and economic advisor to the state, and promotes credibility – with both domestic and international audiences – of central bank activity.

USAID has been at the center of this progress through its economic growth and governance programs. Under the EGGI project, support to the MPD continued, with primary focus areas on improving and deepening statistical and analytical capacity of MPD staff, expanding the sources and geographical coverage of economic data and infor-



mation, and building more collaborative relationships with select data sources to improve the accuracy and timeliness of information flows. These are mission critical activities necessary to having the right inputs, processing capabilities, and policy outcomes. Collectively, they contribute greatly to the on-going process of strengthening Afghanistan's economic governance competencies. A credible and transparent MPD function promotes better decision-making by households, businesses and policymakers.

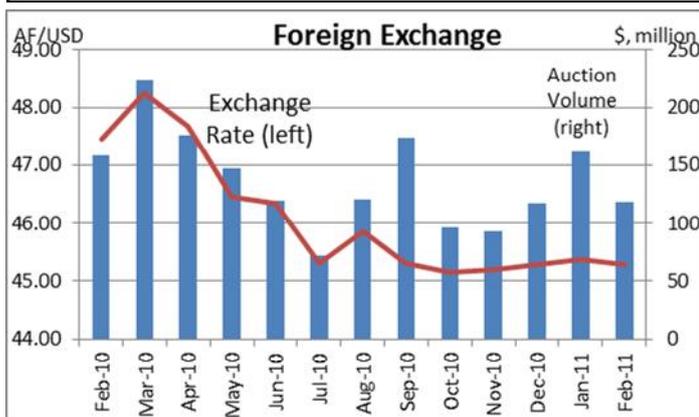
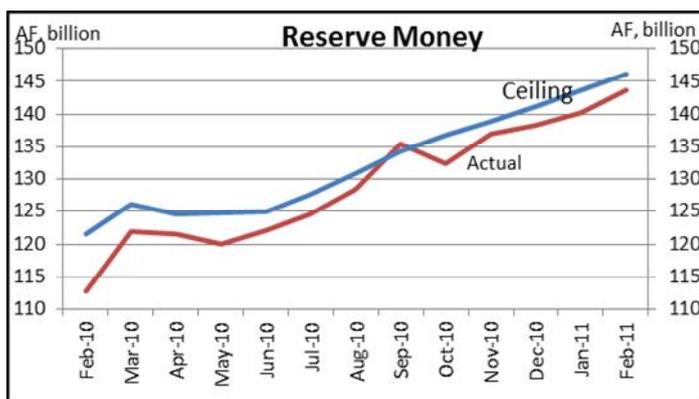
## Year 2 Results with USAID/EGGI Assistance

With the MPD and MOD firmly established, EGGI efforts during Year 2 centered on supporting MPD in its conduct of monetary policy, growing and deepening staff knowledge in statistical and analytical work and technical writing, and in expanding the monetary policy function to DAB zone offices. Although the IMF provides considerable policy guidance, MPD has full responsibility for day-to-day tasks of determining and implementing monetary policy, including analyzing economic conditions, projecting macroeconomic variables and considering consequent policy options, and reporting, to a wide variety of stakeholders, the state of economic conditions. By successfully performing these tasks, MPD can exert significant influence towards maintaining price stability and reduce exchange rate volatility, both of which contribute to sustainable economic growth and lower unemployment.

In support of these objectives, project activities during Year 2 focused on expanding economic data collection, increasing public awareness and outreach activities, and strengthening MPD staff analytical skills. Illustrative outcomes of EGGI support include DAB's control over reserve money (see chart) and expanded use of capital notes as a tool of monetary policy. Both foreign exchange and interest rates displayed considerable stability during the first two quarters of Year 2 (see associated chart), indicating consistency between DAB communications and policy actions. However, in spite of controlled money supply growth, inflation rose in November 2010 above DAB's desired target range. Project advisors supported MPD to conduct an analysis of factors contributing to the surge and monitor price developments, and determined the causes to be primarily related to temporary disturbances and inflation in trading partner countries – all reasons beyond its control.

To address the limited data and information available to MPD staff, EGGI and DAB constructed the Survey of Regional Economic Activity (SREA), a regional-based activity launched in EGGI Year 1 that provides timely, regular, anecdotal information on economic trends and conditions throughout the country.

*Continued on page 24*



# Monetary Policy (de-scoped April 2011)



EGGI Statistics Advisor assists DAB Jalalabad staff with analysis of the results from the first Survey of Regional Economic Activity in Nangarhar.

*Continued from page 23*

The SREA, conducted bi-monthly, is structured similarly to the Federal Reserve Beige Book and seeks to collect information from private and public sector participants on spending, inventories, employment, prices, output, and investment of all major sectors of the economy. The report of the survey results complements existing hard data by providing causes and rationales for changes in data. EGGI established the structure and capacity for conducting the SREA and, by the conclusion of the workstream in March 2011, the SREA report was being produced every two months in the DAB Central (Kabul), West (Herat), and East (Nangarhar) zone offices. The project also completed substantial preparatory actions to launch the SREA (and other MPD zone based activities) in the Southeast (Gardez) and North (Balkh) zone offices. In the course of this effort, EGGI and DAB were able to reach a broad range of provincial level business, government, academic leaders, as well as Afghan citizens, in discussions on the role, functions, and activities of the central bank, with particular emphasis on the monetary policy and economic research function.

Also in quarter 1, the Monetary Policy and Market Operations Departments, with EGGI assistance, secured Supreme Council approval

*“This statistics training will be a huge help to our staff and increase their productivity because many do not have advanced skills using Excel and performing complex calculations.”*

**Director General,  
DAB Market Operations Department**

for amendments to the Foreign Exchange regulation, delivering a set of documents in defense of the proposal and quantitative analysis of the foreign exchange market. The amendments are an IMF Structural Benchmark under the Extended Credit Facility (ECF) aimed to achieve multiple outcomes, including: improve the use of the foreign exchange auction as a monetary policy tool; deepen financial intermediation; modernize the banking sector; reduce DAB’s retail banking activities; and lower DAB’s cash management costs. The project provided support and assistance throughout the process and took advantage of the opportunity to conduct on-the-job applied analytical training for MPD staff.

As part of the project’s efforts to develop the analytical capacity of MPD and MOD staff in Kabul, advisors began a 10-week program of training in applied intermediate statistics, although the course was not completed prior to the end of assistance at DAB in April 2011. More than a general statistics course, this training provided some of the tools and knowledge to enable staff to contribute to work that is currently performed by only the Deputy Directors General. By enabling staff to perform analyses, this training aimed to improve both

the quality and quantity of research being done in the departments which led to a more solid understanding of economic conditions by staff and promoted better decision-making.

Additional project support areas to MPD and MOD included preparation of cost projections of monetary policy actions during 1390, a comparative analysis of the costs of selling capital notes versus intervening in the foreign exchange market, and the development of an interest expense worksheet to guide discussions during capital note auctions. The project also supported production of DAB’s Quarterly Bulletins. With guidance from EGGI, MPD completed the 1389 Q2 economic and statistical bulletin and advanced production of strong draft for Q3. By guiding the production process, the project was able to assist the MPD in getting caught up as it had fallen behind in publication of the bulletins. By releasing macroeconomic and financial sector data with a high degree of accuracy and timeliness, MPD facilitates policy decision-making within the government and international agencies. In addition, releasing the bulletins contributes directly to DAB’s public outreach efforts. Finally, the project contributed to the development of the IMF’s Financial Programming model, the preparation of Supreme Council presentations, and the drafting of the Governor’s Weekly Report. Through each of these products, the project helped demonstrate the desired level of professionalism and analytical rigor that should be present in the output of the departments, thus forming the basis for capacity development.

## Conclusions/Lessons Learned

Collectively, EGGI Year 2 assistance in these areas contributed to improved economic governance, promoted greater levels of information sharing and knowledge exchange, and positioned DAB to be a more competent actor in shaping economic policy reform and initiatives within GIRoA decision-making forums.

One of the most critical areas requiring ongoing assistance lies in staff development. The MPD could benefit from additional one-on-one and group mentoring. While other organizations, such as the IMF, are providing assistance, the overall impact would be more beneficial from activity coordination at the ground level rather than only at the mission level. Also, data availability and reliability, while improving, need greater levels of attention, which could be measurably advanced with a specific technical assistance program designed for the Central Statistics Office.



Chief Economist and Director General of DAB’s Monetary Policy Department, Mr. Ateeg Nosher, takes notes on technical presentations delivered by MPD advisors at a knowledge sharing event in December 2010.

## Accounting and Financial Management (de-scoped April 2011)

### Background

The design, implementation, operations, and on-going maintenance of financial and accounting procedures and systems are vital central bank functions. Since the early reform years, DAB has made significant progress adopting internationally recognized accounting standards and transaction management systems at its head office and operational branches. There are two factors that have contributed significantly to this progress: increased automation and improved staff capacity, particularly to utilize and maintain the new systems. In 2006, Da Afghanistan Bank, under a USAID funded modernization program, commenced implementation of the Core Banking System (CBS), an automated banking and accounting software package. Five years later, CBS is delivering value, from client service delivery improvements, to timely, careful production of consolidated DAB financial statements. These improvements have benefitted not only DAB financial management operations but have led to significant improvements to service delivery, particularly in supporting GIROA revenue and expenditure operations.

The project continued building DAB's overall capabilities for financial and accounting management activities, including a stable CBS system in the head office and across the branch network, continued staff development and skills building, and production of statutory financial statements and customer account records. EGGI has also contributed significantly to resolving historical imbalances in DAB inter-branch accounts, as mandated by an external audit of the bank operations. During Year 1, assistance to DAB's Accounting and Finance Department focused on improvements in maintaining accounting records in line with accounting standards, resolution of issues raised in previous audits, and in instilling greater discipline in daily balancing of accounts. With EGGI support, DAB successfully reconciled historical differences in inter-branch accounts, an issue identified by all external auditors since DAB engaged such services. In addition to satisfying audit findings full reconciliation was needed to properly value assets and liabilities, and to increase stakeholder confidence in the Bank's financial statements.

### Year 2 Results with USAID/EGGI Assistance

Broadly, project assistance in Year 2 centered on achieving better control and management of transaction records and careful postings of them in the accounting systems. The daily balancing function in the automated CBS system made achieving this goal feasible, as it replaced manual, pen and paper calculations, transaction accounting postings, and balance sheet reconciliations. The daily balancing activity is just one example of the increased level of discipline, transparency, and accountability in DAB accounting and financial management procedures introduced by the automated system.

During Year 2 the project continued implementation of the CBS in DAB's head office and 39 provincial capital and border branches. There are a number of notable results of this automation. For one, over 95% of total client transactions serviced by DAB are handled through the automated system along with over 95% of the consolidated DAB balance sheet. As a result, the majority of DAB's assets and liabilities are managed through the automated system. The fact that DAB was able to produce its consolidated financial statements for FY 1388 and 1389 in record time is attributable largely to sustained progress in CBS operations. Finally, the system gives, DAB's head office real-time "desktop access" into the accounting records of the CBS branches, permitting quick problem identification and resolution.

The project gradually transitioned day-to-day management of the system to DAB employees to promote sustainability after the end of the project period. DAB staff in the head office and in CBS operation-



al branches, have assumed responsibility for the operation and maintenance of the system, in processing, reporting, and technical support. This is an example of the success of "Afghanization." Since transition of control, DAB has been able to expedite the process of amendments and changes recommended by DAB management, resulting in expedited installation of the CBS in remaining target branches.

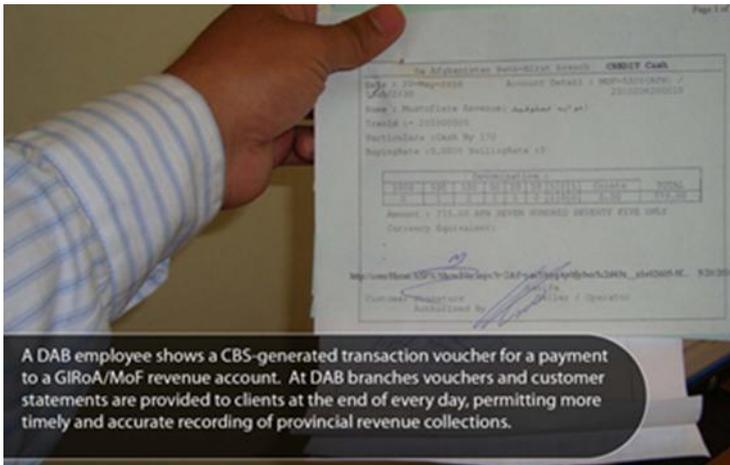
Prior to the turn-over, project advisors trained DAB staff on how to merge all CBS branches into an integrated database, making real-time inter-branch payments possible. As of April 2011, the DAB staff merged six DAB hub branches with the head office database.

There were several additional automation activities. One involved successfully implemented live operations of the CBS Advances Module for the DAB head office and zones. This module automates records of all loans and advances outstanding (typically to individuals or departments) for recovery management. The system also will improve management of advances related to construction performed by different building contractors. Another activity was the successful implementation of the CBS Payroll module in the head office. This enables DAB's Accounting Department to manage salary disbursements and tax withholdings, along with other remunerations, efficiently and carefully. Finally, DAB also implemented the CBS Treasury Module in the market operations department, enabling a consolidated view of foreign currency reserves, including details of funds invested, projected earnings, asset mix, and future positions.

Another key accomplishment was progress in reconciliation of imbalances in DAB inter-branch clearing and settlement accounts. This was a multi-year effort that gained momentum toward the end of project Year 1 and continued into Year 2. By the end of Year 1, EGGI had assisted DAB in reconciling the accounts in 26 of 74 branches, reducing the outstanding imbalance from 1.2 billion AFN to 1.2 million AFN. Reconciliation of an additional three branches was completed in Year 2, bringing the total to 29 fully reconciled branches and a reduction of over 98% of the total value of the imbalance. Beyond the positive impact of improving the integrity and reliability of DAB financial management operations resulting from inter-branch reconciliation, a significant finding included the recovery of unaccounted for assets. With EGGI's assistance, DAB successfully recovered in excess of USD 35 million belonging to the Bank but unaccounted for in financial records since 1384 (2006). While the impact of the findings to DAB's balance sheet during this exercise may not have been financially significant, this was a discovery that improved DAB's overall financial condition.

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## Accounting and Financial Management (de-scoped April 2011)



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In February 2011, DAB began an interim audit of its financial reports. The interim audit will form part of the financial year-end audit process that is conducted by international external auditors (KPMG Afghanistan), and will reduce the amount of work for the external audit. This action helped DAB to meet the three-month deadline for the submission of financial statements to the Parliament by June 20, 2011.

### **Conclusions/Lessons Learned**

On a given day, DAB processes an average of 6,000 client transactions through the CBS. A majority of these transactions are government revenue collections and payment transactions for commercial banks - two of DAB's core clients. Processed transactions are posted directly to the CBS, with the customer receiving an automatically generated transaction voucher as proof of payment. This practice has improved GIRA revenue posting and reporting at provincial Mustofiats, an activity supported by EGGI under the Revenue Reconciliation Database (RRD) workstream. Close cooperation between Mustofiats and DAB has yielded more timely and careful revenue postings.



## Zone Branch Development (de-scoped March 2011)

### Background

In 2006, DAB adopted a broad Branch Network Strategy that specified key objectives over a three to five year period addressing the existence, service scope, and expected business levels of its branches across the country. Observations of DAB operations in the early reform years noted an unprecedented level of branches for a central bank and highlighted that the services offered were inappropriate for an independent central bank. However, DAB was the only financial institution with countrywide reach to provide basic account services. Recognizing this, DAB officials, in consultation with relevant GIRoA officials and international stakeholders, agreed on a strategy that focused on modernizing operations and infrastructure of a core set of provincial and border area DAB branches to provide banking services consistent with the Law on the Central Bank, divestment of non-essential locations, and an eventual extraction plan to remove DAB as a service provider to non-government customers. Simultaneously, the strategy also called for gradual divestment of non-essential branches, account transfers to commercial banks, and restructuring staffing profiles of hub provincial branches ("zone offices") to include positions supporting core central bank functions.

Since this time, DAB, with USAID, IMF, World-Bank, and other donor technical assistance providers, have stayed the course of building a modern central bank branch network competent to execute its functions under law. With respect to the branch network, 40 of 46 target branches have been modernized, thousands of non-central government accounts have been transferred to the commercial sector, and significant progress has been achieved in establishment of DAB zone offices. Under EGGI, technical support has assisted DAB to build the capabilities and competencies of staff in zone offices to conduct core central bank functions, to include monetary policy, liquidity management, limited supervision, and payment systems development.

### Year 2 results with USAID/EGGI Assistance

During Year 2, EGGI supported DAB in strengthening the work of the newly hired zone economists, launched the Financial Sector Forum (FSF) concept in the West and East zones, continued support for improving the quality and availability of bank notes in circulation, made substantial progress in clearing up legacy imbalances in inter-branch accounts, and solidified operations of the Core Banking System (CBS), DAB's accounting and transaction management banking system.

The project's Zone Branch Development and Monetary Policy workstreams made progress in raising the profile of DAB outside of Kabul, and in broadening the sources of economic data (both objective and anecdotal) used to formulate policy. Specifically, EGGI assisted



The DAB West Zone director explains to Financial Sector Forum participants the trends for currency in circulation during SY 1389. EGGI helped DAB improve the quality and quantity of currency banknotes while maintaining money supply targets to manage inflation

ed DAB in strengthening the functionality of DAB zone offices in Herat and Jalalabad. In the area of monetary policy, the DAB zone economist function serves to build capability for regional and provincial level data, information, and analysis on economic trends and conditions. EGGI and DAB Monetary Policy Department (MPD) staff developed the Survey of Regional Economic Activity (SREA) to support this effort, which commenced during Year 1. The SREA is implemented in three of seven target zones, with four regional surveys conducted during the first two quarters of Year 2.



EGGI helped DAB place into circulation 28.2 billion AFN in new banknotes and destroy 3.5 billion in damaged notes in 2010. DAB's actions were intended to improve the condition of bank notes in circulation, improving marketplace transactions



Staff from the DAB West Zone Office convene in a working group and discuss solutions to avoid premature damage of banknotes. The group brainstormed specific actions on how to engage commercial banks, shopkeepers, and monetary service providers, who are directly involved in money transactions.

In the area of public education and stakeholder engagement, EGGI supported DAB to advance outreach efforts in DAB zone offices. Following the successful hosting of financial sector related events in the West and North zones, DAB, with project support, established the concept of the DAB Financial Sector Forum (FSF) series. The FSF series is a DAB-owned initiative to bring provincial level stakeholders together to address and brainstorm solutions to resolve banking and financial sector issues. This activity helped to advance four key objectives: 1) increase the standing of DAB zone offices and the impact of their work, 2) promote a localized, results-oriented approach to address and resolve challenges faced by citizens and financial service providers, 3) broadly advance public education and awareness on banking and financial sector services, and 4) address USG objectives to promote Afghan-owned, provincial level action to advance economic growth and governance objectives. During Year 2, two Financial Sector Forums were conducted in the East and West zones. In January 2011, DAB West held their second FSF in Herat bringing together commercial banks, money service providers, the governor's office and other stakeholders to discuss cash management and bank note distribution.

*Continued on page 28*

## Zone Branch Development (de-scoped March 2011)

*Continued from page 27*

With the aim of improving liquidity and better cash management, DAB placed into circulation a total of 28.2 billion AFN in new bank notes from March - December 2010 (8.2 billion in Q1 FY2011 alone), of which 12% were low value notes. Distribution of new banknotes responds to the growing demand for Afghani currency, helping facilitate improved commerce, keeping pace with currency demand, and ensuring the quality of notes in circulation. In the last three months of 2010, the project supported DAB to concertedly address the condition of bank notes in circulation, through focused attention on removing damaged notes from circulation, issuing circulars to commercial banks and DAB zone offices on not distributing poor condition notes, and in communicating with citizens through various media to take better care of bank notes.

In the area of accounting and financial management, of the 39 branches utilizing the CBS system, 29 branches have reconciled their inter-branch accounts, with several others demonstrating consistent, independent operational capability for running the CBS. The number of issues related to daily balancing and un-reconciled transactions, diminished significantly over the first six months of Year 2. Improved CBS operations, including the ability to post transactions in real time, generate transaction vouchers, and provide account statements daily, dramatically improved the financial management processes of core clients, most notably the Ministry of Finance. Automated account and transaction management capabilities facilitated reforms underway in revenue collection and reconciliation, business licensing and registration, tax administration, and budget expenditure management. Collectively, these areas represent demonstrable progress in overall economic governance functions of GIRoA – at the center and across provincial offices.

The above examples represent key activities under the DAB Zone Branch Development workstream in Year 2. A central outcome of this work was in positioning DAB zone offices to assume their role as productive units contributing to core central bank functions. Across zone offices, the knowledge base, competency, and confidence of managers and staff are measurably improving. In addition, the level of understanding of DAB and other GIRoA officials of the broad set of

financial sector development initiatives are likewise improving. Importantly, DAB demonstrates increasingly ability to sustain the new functions and reformed operations following the implementation period. With a much stronger management group at the center – and increasingly at the zone offices – DAB has shown success in sustaining reforms once established. This is exemplified in the case of sustainability of CBS operations, timely financial reporting, GIRoA revenue consolidation to the MoF Treasury Single Account, and in assuming increasingly ownership of the new functions and corresponding duties being introduced into the DAB zone offices.

### Conclusions/Lessons Learned

Staying consistent with broad development and business planning goals of DAB was a key to top-level management objective for the Zone Office Development workstream. The activities in this area fit precisely within DAB's Five-Year Strategic Plan and addressed the final chapter of the DAB Branch Network Strategy developed in previous years.

Despite support from DAB leadership, actual implementation – turning ideas, concepts, research techniques, and activity guidance into valuable, useful work products – was and remains a challenge. Limited resources at DAB resulted in delays in decisions on implementation. The recruitment process for the zone economists, for example, took over nine months, formally adopted Terms of Reference for all positions was not complete when this workstream was canceled, and zone economists were deployed with no identification of their head office support team/structure. The recruitment effort for the zone supervision specialists also remains incomplete.



The DAB West Zone director explains to Financial Sector Forum (FSF) participants the trends for currency in circulation during SY 1389. EGGI helped DAB improve the quality and quantity of currency banknotes while maintaining money supply targets to manage inflation in Afghanistan.

## Payment Systems (de-scoped March 2011)

### Background

In mid-2003, Afghanistan had no formalized, automated payment systems to conduct private and public transactions. A limited amount of payment activity was taking place through banks, conducted exclusively in cash. Nearly all trading in goods and services was conducted in cash or barter exchanges. For international and inter-provincial payments, the Hawal system dominated. This informal system was used extensively for money remittances from Afghans working abroad to their homes and for transactions between provinces. While this “trust based” system was efficient at the individual payments level, there are tremendous risks involved for business to business and government transactions. Hawalas operate without a capital base, introducing commercial risk, and the lack of transaction documentation prevents transparency and clean audit trails. Recognizing this, the development of a national payment system, for international and domestic payment transactions, was deemed a high priority. In addition to offering a more efficient and accountable platform for processing the expected large volume of payments for reconstruction and development, payment machinery was urgently needed to support government revenue and expenditure operations, to create the infrastructure for commercial banks to establish operations, and to support commercial and private sector development.

Over the last several years, DAB, with extensive support from USAID and other development organizations, has made tremendous progress in establishing a functioning national payment system, meeting both payment transfer needs within the DAB branch network and for interbank transactions. The Afghanistan Funds Transfer System (AFTS/ Inter-branch) and the Afghanistan Clearing and Settlement System (ACSS/Inter-bank) addressed these urgent needs, permitting ability of the Central Bank and commercial banks to provide reliable and timely funds transfer services. Payment activity taking place through these systems has seen explosive growth (see chart below), enabling dramatic improvements to GIRoA public treasury management operations, commercial bank expansion, direct salary deposit services, and more efficient business-to-business transactions.

EGGI efforts under the payments workstream aimed to expand and strengthen the systems in use. The level of payment activity now taking place across the country through the formal banking sector has increased over 40%. The systems developed in 2003 and 2004 are reaching the end of their lifecycle in terms of handling current and expected future volumes. In addition, a stronger, more defined set of payment clearing and settlement regulations is required to provide for

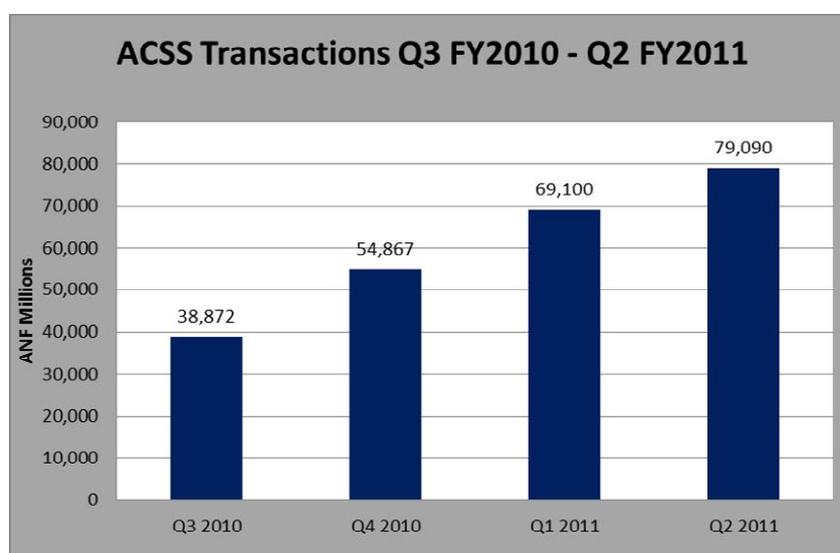
responsible use of payment systems. In its capacity under the law to “. . . establish, maintain and promote sound and efficient systems for . . . the clearing and settlement of payment transactions,” DAB requires a strengthened set of systems, regulations, and procedural rules that govern payment finality, enable (near) real-time monitoring of liquidity positions and financial flows, and hold accountable participants for timely clearing and settlement. EGGI efforts were concentrated in these areas.

### Year 2 Results with USAID/EGGI Assistance

During Year 2, EGGI and DAB oversaw the installation at the Ministry of Finance (MoF) of on-line entry of transactions into the Afghanistan Clearing and Settlement System (ACSS). This has permitted a more timely, efficient, and transparent method for conducting government payment operations. Because ACSS transactions are cleared each day, payment beneficiaries receive access to their funds more quickly, which accelerates overall economic activity. In addition, the project supported various upgrades to the ACSS, to include reporting functionality, access security improvements, and added additional information fields in the payment order page for MoF reporting purposes. Of significant note were project efforts to enable ACSS transactions for automated posting to client accounts in DAB’s Core Banking System (CBS). These activities have improved the functionality of the payment system and reduced errors as a result of re-keying transactions in the MoF and DAB. In addition, the integration has produced an audit trail of transactions enabling faster reconciliation between agencies.

Payment transactions through the ACSS continued trending upward, in both volume and value. Over the first two quarters of Year 2 (October 1, 2010 - March 31, 2011), over 25,000 transactions flowed through the ACSS, with a total transactional value of close to 148 million AFN. This represents a 58% increase over the previous two quarters. The value of Q2 transactions was roughly 79 million, over 14% higher than the value of transactions in Q1. Upward trends indicate increasing usage of non-cash settlement methods for a wide range of government, business, and individual transactions that remove cash from the process. These are positive trends, indicating growing usage and trust in banking services and electronic payment methods.

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# Payment Systems (de-scoped March 2011)

*Continued from page 29*

On the regulatory side, EGGI assisted DAB in completing final edits to the interbank payment regulations, which include definitive timeframes for payment finality and penalties for non-compliance. The regulations also provide greater clarity with respect to the obligations of payment system members and issue resolution. Pending more formal adoption and circulation of clearing and settlement issues, Project advisors produced a draft regulation on Expedited Funds Availability, which specifies the timeframe for commercial banks to credit end beneficiary accounts processed through inter-bank payment systems, such as the ACSS and Afghanistan Clearing House (ACH). Generally, the draft regulation spells out the schedules for what type of funds can be paid out of the banks on the next business day. The regulation also provides for exception safeguards, administrative enforcement, and liability clauses to enforce compliance.

To address governance matters surrounding the operations of and participation in a national payment system, EGGI continued efforts to stand up the National Payments Council (NPC). EGGI supported DAB to develop a Terms of Reference for the NPC in early October 2011. The NPC aims to support the achievement of sound and efficient payment and securities clearance and settlement systems in the country, serving as a useful forum for consultation on systems development, financing and pricing schemes, and identifying obstacles to and solutions for orderly payment operations. Following development of the ToR for the NPC, EGGI completed the first draft of the DAB Inter-bank Payments System Statement of Technical Requirements. This document sets out technical requirements of the inter-bank payments system (IPS) in sufficient detail to allow system suppliers to tender for implementation of a new inter-bank payments solution for DAB. This document will be an attachment to a standard procurement document package intended to procure much needed upgrades to DAB payment systems currently deployed (ACSS and AFTS developed over 6 years ago). These systems are nearing a point where they are no longer adequate to accommodate the level of electronic payment activity taking place, let alone accommodate expected volume growth through continued promotion and encouragement of non-cash transactions.

## **Conclusions/Lessons Learned**

In its legal capacity as banker to the State, DAB remains at the heart of public treasury operations, servicing government accounts across the country. These include the MoF Treasury Single Account, through which all government revenue and expenditures flow, hundreds of donor funded development accounts under MoF trust, and provincial revenue, expenditure, and guarantee (“taminat”) accounts. More broadly, DAB recognizes that transaction efficiency ultimately affects payment beneficiaries, including employees, vendors and contractors of government and donor organizations, transactions for commerce, trade, and industry, and development funds for the hundreds of programs taking place across the country.

DAB’s increasing levels of automation – in payment transaction and account management systems – help achieve processing efficiency and greater transparency. Importantly, steps to build a stronger regulatory framework and technical capabilities for inter-bank payment systems expands options available to process payments in underserved areas and paves the way for eventual DAB extraction from the cashier function it now serves with respect to government account services.

These growth trends in inter-bank payment transactions are expected to continue, a desirable outcome promoted by DAB. With this expanding volume, however, urgent upgrades and system modifications are required, as well as planning for a new generation of au-

tomated payment systems capable of handling higher volumes, more complex mass disbursement processes, expansion to the provincial level, and increased access to financial service providers beyond commercial banks. The ACSS, established in 2004, was not designed as a long-term solution for inter-bank payments and is quickly becoming insufficient to handle effectively and efficiently the level of transactions now processed.

# Information Technology Support to DAB (de-scoped February 2011)

## Background

Without a properly functioning IT infrastructure that allows maintenance of financial and human resource records, production of management reports, and internal and external communications, none of the other objectives of DAB could be completed efficiently. As DAB continues to experience rapid growth and continues to streamline operations, Information and Communications Technologies (ICT) will play an increasingly vital role in the sustainability of the Central Bank and its ability to protect vast quantities of sensitive data. This workstream assisted DAB in addressing critical areas of IT infrastructure, including the important tasks of business continuity and disaster recovery.

A strong ICT framework underpinning operations can be a powerful tool for promoting economic growth through increased productivity and access to information. DAB requires such a framework not only to bolster internal operational and data management needs, but also to carry out external transactions. Providing a sound and resilient ICT framework that evolves and keeps pace with industry developments will ultimately help DAB fulfill its responsibilities to promote overall financial sector stability.

## Year 2 Results with USAID/EGGI Assistance

The project supported DAB to take increasing ownership over IT modernization activities. One key accomplishment occurred during the first quarter, when DAB signed an agreement with a UAE-based company to house a new out-of-country Disaster Recovery (DR) site. Also in Q1, DAB executed an agreement with Afghan Telecom (AfTel) for voice and data communication services. Both initiatives, supported directly by the project, represented key DAB actions with regard to its information management objectives outlined in the Five-Year Strategic Plan.

At the start of Year 2, project advisors focused on defining and supporting implantation of a DR strategy. In October, the First Deputy Governor at DAB received and approved the technical evaluation prepared by DAB's IT Department for Disaster Recovery co-location services. Following approval, project advisors worked closely with DAB's IT department in the vendor evaluation process. As part of this evaluation process, site visits were conducted to Dubai and India. The project supported DAB to develop an evaluation document, *Analysis and Recommendation of a Disaster Recovery Site for DAB*, to provide a careful and transparent evaluation process. This tool included technical, environmental, and financial information compiled for various potential vendors. The IT management at the Bank reviewed the materials and made the selection decision for a vendor to provide co-location DR services.

In December, DAB signed the agreement for a DR site in the UAE. The activation of DAB's out-of-country DR site will support the preservation of the records of the Central Bank and the continued operation of DAB's automated systems in the event of irrecoverable destruction or extended downtime of DAB in-country servers and ICT systems. Given DAB's high use of automated payment, accounting, transaction pro-



cessing, and communication systems, establishment of the DR site represents a critical completed action connected to DAB's overall information management goals under its Five-Year Strategic Plan. With the formalization of the site selection, DAB reaches an important milestone in the overall Disaster Recovery Strategy. The DR strategy, when fully implemented, will bring a high level of data recoverability in the event of a disaster. The new strategy will address critical recovery objectives, particularly with respect to financial and payment areas.

Another key accomplishment occurred in November 2010 when DAB and AfTel completed negotiations for DAB to purchase Fiber Optic connectivity services to link DAB headquarters to bank branches around the country. The project represents a significant investment by DAB in improving internal data and voice communications, and is expected to dramatically improve the performance of automated payment, transaction, and accounting systems.

EGGI supported DAB lawyers and IT professionals in reviewing the terms of the agreement and proposed services. DAB officials led negotiations with AfTel that culminated in a finalized agreement signed between both parties in January 2011. The services include installation and capacity provisioning for fiber optic telecommunications between DAB headquarters, 15 provincial branches, and six branches in the Kabul area. The new services will improve the reliability and cost effectiveness of connectivity for DAB's core automated systems. These include the Core Banking System (CBS), Afghanistan Funds Transfer System (AFTS), and e-mail communications. With the support of project ICT and legal advisors, DAB has completed the acquisition process that will bring substantial improvements in transaction processing, payment transfers, and general business operations.

## Conclusions/Lessons Learned

In particular for the main ICT initiatives, DAB has demonstrated the ability to access financial resources more easily than other government institutions. The ICT department has been able to leverage World Bank funding for training as well as UNDP resources for the implementation of a Disaster Recovery strategy. Further support to the World Bank Financial Sector Strengthening Project should be examined, particularly in the project management component, if the resources from that project are to be fully leveraged.

One key challenge was the lack of enough capable IT resources at DAB to implement all of the ICT related initiatives. During the few months of Year 2 when the project was active in this area, priorities focused on working with DAB's ICT department to develop and implement the ICT strategy and the DR strategy, yet other areas of DAB required ICT attention and support, such as payments systems, to be more efficient. The lack of IT support from the DAB IT department delayed implementation of ACSS upgrades and modifications. The project understands that DAB was taking steps to hire new staff but it was not confirmed whether or not these efforts were successful.



Mohibullah Safi, DAB First Deputy Governor (center right) finalizes an agreement with eHosting DataFort in Dubai, establishing an out-of-country site for disaster recovery of DAB records

### Background

Since 2003, USAID assistance to the Da Afghanistan Bank (DAB) focused on supporting the enactment and implementation of the Decree Law of Banking and the Decree Law of Da Afghanistan Bank. These principal laws set the stage for banking sector activity and identify DAB as the licensing, supervisory, and regulatory authority over banks and financial service institutions. Over the years, DAB and its technical assistance providers advanced production and approach of a wide range of regulations to provide further guidance for financial sector operations and governance. In more recent years, DAB has taken a lead role in sponsoring and implementing additional financial sector laws, including the Law on Combating Financing of Terrorism, the Anti-Money Laundering and Proceeds of Crime Law, the Law of Negotiable Instruments, the Law for Secured Transactions on Movable Property in Banking Transactions, and the Law for Mortgages on Immovable Property in Banking Transactions. Passage of these laws has measurably improved the legal and regulatory framework for financial sector activities.

Legal and regulatory support under EGGI has centered on production and facilitating passage of additional laws, guiding the drafting and passage of a set of amendments to the banking law, preparatory work on establishing a deposit insurance program, and cataloguing the laws and implementing regulations supporting the laws. Support for problem bank supervision was added to the workplan for this team. Project advisors worked daily with DAB leadership on a myriad of technical legal issues.

### Year 2 Results with USAID/EGGI Assistance

It is customary in transitional countries for banking laws and central bank laws to be revised several years after adoption to keep pace with changes to the regulatory environment. Issues often arise, as the financial sector grows and undergoes changes that were not contemplated when the laws were originally drafted. Eight years of experience with the Banking Law and DAB Law revealed substantive gaps, some of which may limit DAB's ability to deal with difficult issues ranging from problem institutions, to conflicts of interest and transactions with affiliated parties. During Year 2, EGGI worked closely with DAB to address these issues.

Proposed amendments to the Decree Law of Banking and Decree Law of DAB have been approved by the DAB Supreme Council since 2005 but for a variety of reasons, were never presented to the National Assembly. In the first half of 2010, EGGI assistance facilitated the further development of these draft amendments as well as significant enhancements to a proposed appendix to the Law of Banking, which would establish the Afghan Deposit Insurance Corporation (ADIC). EGGI also helped DAB to prepare a sub-package of Banking Law Amendments (regarding corporate governance, consolidated supervision, and enhanced procedures for resolution of failed banks) for possible enactment by decree on a "fast-track" basis. With the departure of EGGI in April, DAB is looking for a new legal advisor to assist the DAB General Counsel's Office in shepherding these various legislative packages through the legislative process, including convening stakeholder roundtables, and strategizing for presentation to the Cabinet and National Assembly. The package was developed to prioritize the most critically needed actions, which were designed to introduce consolidated supervision and reduce shareholder involvement in day-to-day bank management, among other issues. EGGI supported DAB in finalizing the package for review by the Ministry of Justice (MoJ) while simultaneously supporting DAB in educating stakeholders on the intent and purpose of the proposed amendments.

In January 2011, the project's representatives joined the DAB Governor and other DAB officials at a meeting with the Executive Committee of the Council of Ministers to advance the "fast track" amend-

ments. Despite strong efforts by the DAB team, the Executive Committee declined to approve the legislation, proposing instead the establishment of a sub-committee to review the legislative language in more detail with key representatives of the banking community. Given DAB reluctance to open up widespread debate on the amendments, DAB took the decision to re-incorporate the "fast track" amendments into the full package of amendments being proposed to the Law of Banking, requiring full legislative processing. With the inauguration of the new Wolesi Jirga in late January 2011, the opportunity to enact the "fast-track" amendments by decree was not possible.

Another area of project support centered on drafting and advocating for passage of the Law of Islamic Banking in Afghanistan (LIBA). The IMF took the lead on supporting DAB in this effort. IMF consultants began with the current Law of Banking, and modified that base law with the intention of establishing a parallel law that meets Shari'ah standards and requirements. The aim was for both the conventional and Islamic banking services in Afghanistan to be subject to the same regulatory systems and structures. However, with the amendments being proposed to the Law of Banking, the draft LIBA originally presented was no longer appropriate as it did not incorporate the set of amendments to the Law on Banking that was under process. This could result in shifting related problems with the current law to the Islamic banking sector, an unacceptable solution. Both the IMF and EGGI expressed concerns over this issue to DAB. DAB is under significant pressure to advance the amendments to the Law of Banking, and views it as politically essential to have an accompanying Islamic banking law presented at the same time. DAB approached EGGI to request assistance in translating the draft from English to Dari, and EGGI agreed, providing a translated document prior to the end of assistance.

With regard to the Financial Leasing Law, project advisors continued to monitor the status of the Law in the National Assembly. DAB officials made several attempts to encourage lawmakers to find a way to complete the reconciliation of the bill, unfortunately without success. In April 2011, the project supported DAB in providing an update to the key International Finance Corporation partners supporting the Leasing Law, on the National Assembly efforts, including the names of members and officers of the parliamentarians who were appointed to the Wolesi Jirga's National Economic Commission, the body responsible for overseeing reconciliation of the law from the Wolesi Jirga side of the Assembly. The IFC partners expressed appreciation for the input and indicated their willingness to continue cooperating with USAID-sponsored advisors who may work with DAB's legal department in the future.

Finally, EGGI ICT and Legal advisors supported DAB in reaching an agreement with AfTel on a Capacity Purchase Agreement. For some months, DAB and AfTel had been negotiating a contract for DAB to purchase optical fiber connectivity services to link DAB headquarters to DAB branches around the country. The project represents a significant investment by DAB in improving internal data and voice communications. The initial agreement presented by AfTel was highly complex, and not tailored to the verbal terms agreed by the parties in earlier discussions. With EGGI support, DAB officials continued negotiations with AfTel including several rounds of editing, review, and revision. In November, AfTel notified DAB that it had fully accepted DAB's final set of proposed revisions and corrections and the agreement was ready for execution by end of 2010.

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### **Conclusions/Lessons Learned**

With the assistance of EGGI and USAID predecessor projects, DAB has become more capable as a central bank to keep pace with an expanding industry. The tasks to DAB and the challenges it faces, have grown more complex with this expansion. The need to advance efforts to modify the Banking and DAB Laws to reflect current realities and enable DAB to fulfill its role as a competent financial industry regulator remains an urgent priority. EGGI provided DAB with the technical support and legal assistance to develop updates to the legal framework, to promote a prudent expansion of relevant banking and financial services that strives to protect stakeholders from systemic risk. Importantly, with EGGI support, DAB's Office of General Counsel improved its capacity and took increasing ownership over its own legislative drafting, advocacy functions, and routine legal work necessary to the advancement of these goals.

The political sensitivities surrounding legal and regulatory reform in the banking sector, combined with the shift in support to the Kabul Bank Conservator, substantially upended workplan objectives for Year 2. An unanticipated benefit of this change was that some of the challenges faced by the conservatorship provided clear examples of the gaps and deficiencies that the proposed amendments were designed to address, which may help in building institutional support for the work to follow. In the interim, EGGI provided substantial practical and strategic assistance to DAB and the conservatorship, while also assisting DAB to make some progress towards advancement of the proposed legislative changes.

A key lesson learned, both at DAB and also in other ministries, is that progress on legislative and regulatory initiatives is dependent to a large degree on political and policy circumstances outside the control of the sponsoring institution. DAB experienced such difficulties with respect to the attempt to promote "Fast Track" amendments to the Law of Banking, which encountered strong, organized opposition to the proposals for strengthening DAB regulatory abilities. DAB demonstrated increasingly willingness to plan strategically for political challenges, and with continued assistance in this area, as well as ongoing support from key Government and international partners, could potentially overcome political challenges to its proposed legislative reforms.

### Background

An effective banking system is key to a vibrant economy. Consistent with the Law on Da Afghanistan Bank for the promotion, supervision, and regulation of a banking system in Afghanistan, DAB established the Financial Supervision Department (FSD). Core functions of the FSD include the licensing, regulation, and supervision of banks, money service providers, and other financial service providers. Following several years of USAID support, DAB's supervision teams conduct regular on-site examinations at commercial banks to review financial data and assess the banks' operations. The licensing section, now firmly established, looks to see if applicants conform to acceptable standards of management, policies, procedures, and secure banking practices. Financial supervision's primary role is to endeavor to safeguard the health of the financial sector by controlling entry and exit into the financial sector and monitoring compliance with laws, regulations and governance standards. Supervision achieves this goal through financial reporting requirements, off-site monitoring of financial activities and on-site examinations that scrutinize policies, and procedures and compliance to laws and regulations. When emerging problems or weaknesses are identified, the department must recommend immediate corrective actions consistent with 'safe and sound' banking practices.

Currently, there are 17 commercial banks in operation in Afghanistan with 326 branches, 221 Money Service Providers (MSPs), and 499 Foreign Exchange Dealers (FXDs). Cumulatively, outstanding loans (as of March 31, 2011) total 80.6 billion AFN over roughly 325,000 clients. On the deposit side, approximately 1.6 million depositors hold 152 billion AFN in deposits, also as of March 31, 2011. Notwithstanding the stress caused by the failure of Kabul Bank and the weaknesses identified in supervisory practices, the financial sector in Afghanistan has developed considerably and remains an important services sector providing valuable payment, transfer, lending, and account services that contribute to broad based economic growth, private sector development, and government expenditure management.

### Year 2 Results with USAID/EGGI Assistance

During Year 2, the EGGI team assisted Da Afghanistan Bank's FSD in identifying improvements across the supervisory work flow, with particular focus on on-site and off-site examination processes and in improving its advocacy for passage of the banking law amendments. Project advisors worked with FSD leadership to identify an agreed-upon workplan that reflected the Department's supervisory priorities, including expanded tools for bank supervision and classroom training. The project also assisted DAB in producing an Action Plan for Strengthening Financial Supervision, presented to President Karzai by the DAB Governor on November 28, 2010. The Action Plan specified DAB plans to strengthen the Financial Supervision Department (FSD) over the subsequent 24 months. The action plan covers on-site supervision, off-site supervision, special supervision, licensing and corporate activities, accounting, reporting and external audit, and the Afghan Deposit Insurance Corporation.

EGGI supported a set of activities in Year 2 that moved DAB closer to compliance with the Basel Core Principles for Effective Supervision. This included support to enhance off-site monitoring methods, drafting circulars to banks on information integrity reported to DAB FSD and penalties for misrepresentation, targeted training to examiners on analyzing bank documents and transaction records, and drafting new and revisions to existing regulations for tougher standards for "fitness and propriety" of shareholders and administrators of banks for DAB Supreme Council action. All of these activities addressed continuing improvement areas consistent with the Basel Core Principles on Effective Supervision.

In the area of bank examination practices, EGGI assisted FSD in implementing a monthly "flash" report detailing quarterly analyses of individual banks, with more sophisticated tools to monitor indicators of financial health, including capital adequacy, asset quality, profitability, liquidity, and sensitivity to market risk. This action strengthened off-site monitoring tools by providing an Early Warning System capability to spot possible problems with individual banks. In the context of problem bank supervision, project advisors provided on-the-job training for DAB supervisors on techniques to identify fraudulent documents and transactions later in the contract year. In anticipation of an upcoming full-scale on-site examination of another large bank, FSD teams delivered training to four participants (including one female) on how to identify fraudulent documents, such as SWIFT receipts (international payment orders), business registers and business invoices. Collectively, these activities were concentrated on helping examination staff and section managers spot high-risk and/or fraudulent activity at banks at an earlier stage, permitting supervisory intervention that might prevent identified weaknesses from becoming more serious. Advisors held frequent meetings with examiners over the period of performance, which assisted measurably in preparing for upcoming high-profile examinations.

### Conclusions/Lessons Learned

EGGI's Financial Supervision program focused on deepening the skills of on-site and offsite examiners. The topics and subjects addressed in on-the-job training efforts under the Financial Supervision workstream were agreed upon with DAB leadership and USAID; while many of the foundation processes were in place from prior USAID programs, much more classroom and on the job training was necessary. The examination force, on average, had no more than 24 months total experience. In a sophisticated bank supervision environment, examiners would be expected to have five or more years' experience in order to have the fully rounded skills to examine both simple and complex banking institutions. FSD human capital capacity remained basic (due to attrition) and inadequate to identify or address complex supervisory issues.

DAB has also steadily advanced its supervisory competencies, procedures, and regulatory base to conform to Basel Committee's 25 Core Principles for Effective Banking Supervision. While much more work must be accomplished, the Core Principles document serves as the guidance for areas which require further attention. Continued expansion of on-site bank examiner experience, expanded skills in problem bank supervision, development of internal processes and controls for managing a problem bank portfolio, and continued efforts to tighten and expand the bank licensing process are noted areas for continued technical assistance.

# Conservatorship Assistance for Kabul Bank (de-scoped April 2011)

## Background

In September 2010, a major financial scandal broke at Kabul Bank, a large commercial bank with systemic problems, when it was revealed that management and shareholders were engaged in illegal lending practices, and misuse of bank assets. In response, USG offered assistance to the conservatorship process through providing operational guidance in several key bank functions. At USAID's request, EGGI advisors helped deliver this technical assistance. Support was designed to address broader U.S. Government objectives: 1) improving profitability through increased revenues from fee-based services and low-risk lending activity plus reduced operating expenses through greater efficiencies and elimination of non-value added activities; 2) providing acceptable funding with an effective liquidity (asset/liability) management program; and 3) providing responsive contingency plans to address unplanned events. EGGI provided two commercial bank specialists to work along with the Conservatorship team in meeting these objectives. There was significant broader donor collaboration with IMF, the World Bank, IFC, and other contributors on this significant financial sector matter. While external reviews concluded that USAID nor its Implementing Partner could not have prevented the fraud, as a result, USAID ended its assistance to DAB due to changing priorities and circumstances in the banking sector.

## Year 2 Results with USAID/EGGI Assistance

A summary of achievements are highlighted in the following sections. A more detailed review of Operations assistance to the Conservatorship was presented to USAID. Recommendations of actions for improving performance in the critical management functions discussed below were provided as individual one-page guidelines. These papers are consolidated in the Operations Improvement Guidelines in the Operations Advisor Conservatorship Documents provided to USAID. These documents with detailed processes, procedures, and forms for addressing these key functional areas have also been made available to USAID.

### Asset Liability Management, including Liquidity Management

A central concern was the management of the liquidity in the bank's branch system to provide acceptable funds to cover a high level of withdrawals. After the "run" on the bank in fall 2010, providing acceptable liquidity was a priority. Liquidity management is essential to bank operations, but is seen as part of a broader program of asset-liability management, including deposit and loan portfolio composition, funds product pricing, interest rate sensitivity, and foreign exchange positions. While the bank had prepared an "Asset-Liability Management (ALM) Policy Manual," it did not have a functioning mechanism for implementing ALM policies. The project team recommended such a mechanism in the form of an Asset-Liability Management Committee (ALCO) that was subsequently instituted.

### Financial Management, including Branch Profitability Analysis

The project team also initiated a broader analysis of profitability with the executive management team, focusing on the nationwide branch network. The goal of this review was to minimize the necessity of government funding and to streamline the organization in order to enhance the value of the bank to potential buyers.

*Branch Profitability Analysis:* The initial analysis of branch balance sheet accounts, covered: cash; due from DAB; deposits by type; revenue and expense accounts; numbers of staff; deposit accounts; and transactions. This analysis was to be a starting point for a more detailed review to define criteria to prioritize branches for consolidation or reduction.

*Operating Budget Process:* A second area of support under financial management was drafting a process to introduce a participative process for annual budgeting by the head office departments, zone and branch managers. A summary statement of processes and procedures is included in the Operations Improvement Guidelines document, which was provided to USAID, with an Operating Budget Form.

*New Bank Budget:* The project team also supported the resolution program with the preparation of a budget, with supporting assumptions, for the successor bank license application.

*Management Performance Reporting:* The project team prepared a model management reporting format to present critical activities within the bank and its organizational units, to help unit managers better understand the dynamics of their operations. A one-page model, included in the Operations Improvement Guidelines, was reviewed with the CEO and COO. As well, the budget created for the successor bank in the resolution program follows this management report format.

*Government Salary Distribution Services:* The team supported the development of the bank's proposal for the Government Salary Distribution Services Request for Proposal (RFP) from the Ministry of Finance beginning with financial year of 1390.

### Human Resource Performance Management and Staffing

The project team provided a revised organizational structure for the bank, which was also included in the new bank license. While the bank's Human Resource Management function is relatively well developed, it lacked effective employee performance management tools. The team prepared a set of sample HR Performance Management Forms, including Position Descriptions, Skills Inventory, Performance Evaluation, and Employee Development forms to link the definition of duties, evaluation of performance, compensation for contribution, and identification of development needs..

### Credit Risk Management

Given the restriction on lending activities, assistance in the development of a credit risk management process was deferred. It is anticipated that the bank will continue to maintain and manage existing loans which are current and collateralized. Strict administration and close monitoring of the existing borrowing relationships will be important. Relevant activities within an effective credit risk management process include well-organized and documented credit files, checklists so that required documents are up to date, periodic site visits and reports of borrower activity, close monitoring of financial and business indicators, tracking of timely payments, and documentation of prompt action to address late paying or problem loans.

### Conclusions/Lessons Learned

GIRoA lacks a proper receivership process and experience with receivership procedures. DAB and the FDRC lack capable managers and staff who have the skills and experience to address bank insolvencies. The government relied on international advisors (IMF, U.S. Treasury, USAID) to provide significant leadership and guidance in the Receivership process and in problem loan collection. Continued support is required and recommended as an area for further technical assistance.

## Lessons Learned from Conservatorship Assistance

The DAB supervision team conducted a critical assessment of supervisor process to isolate improvement areas revealed by dealing with problem banks. Key lessons learned include:

- Coordinate between supervisory teams
- Conduct independent management interviews
- Introduce review of accounting systems and transactions
- Improve documentation management of FSD requests

# Component 3: Business Enabling Environment (new)

Economic Growth and Governance Initiative

## Component 2: Year in Review

The EGGI project's new Component 2, *Business Enabling Environment*, focused on supporting sound government policy that promotes a thriving private sector in Afghanistan. The Component incorporated workstreams from the project's previous Component 3, *Private Sector Development*, with new activities for Year 2 after EGGI's "right-sizing." The strategic objective of the component was to improve Afghanistan's business enabling environment to attract investment and spur economic growth, ensuring consultation with the private sector and implementation of improved policies at national and provincial levels.

To do this, the component's work in Year 2 fell under three workstreams: the **Doing Business Better Initiative (DBBI)**, the **Afghanistan Central Business Registry (ACBR)**, and **Commercial Law**. Work in the DBBI workstream culminated in comprehensive research prepared for the MoCI on the laws, regulations, procedures and licenses impacting Afghanistan's rank in the World Bank's "Doing Business" report, and how to improve Afghanistan's rank in key Doing Business indicators. Work in the ACBR workstream involved implementing and expanding the ACBR registration application to facilitate businesses registering with the MoCI. Finally, work in the Commercial Law workstream supported the MoCI Legal Department to draft key laws and regulations, helping raise Afghanistan's commercial framework to international standards.

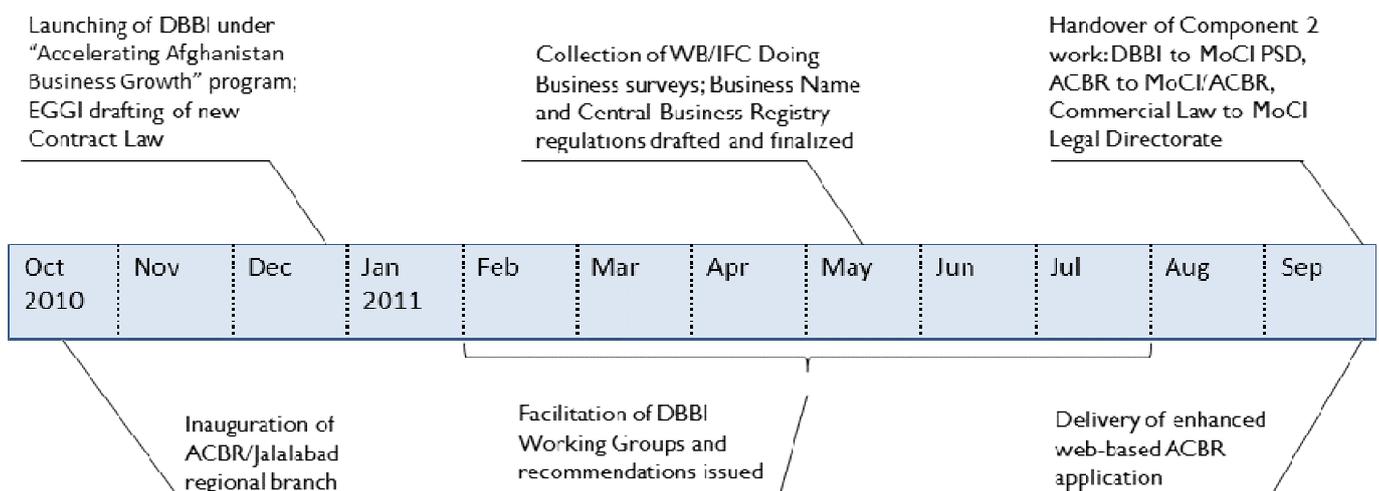
### Year 2 outcomes as a result of EGGI assistance:

- **Launch of DBBI and Working Groups:** The project helped to successfully initiate the DBBI effort to improve Afghanistan's business ranking and initiate private sector reform by organizing a major kick off event in December 2010, and subsequently facilitating Working Group sessions to identify key areas needing reform.
- **Collection of DBBI surveys:** Efforts by the DBBI team helped to improve the Afghan response rate to the WB/IFC's Doing Business survey by collecting 30 of 37 distributed surveys, an increase of 76 percent over last year. Increased responses improve the quality of data to be used in the Doing Business report and helped

highlight the key areas of business reform needed in Afghanistan.

- **DBBI recommendations issued to MoCI:** The DBBI used the WB/IFC survey responses, mapping of GIROA regulatory procedures, and other research to recommend to MoCI ways to improve Afghanistan's ranking in the DB indicators of "Starting a Business," "Protecting Investors," and "Closing a Business"
- **ACBR Self-Sustainability:** The capacity of staff in the MoCI/ACBR Directorate was built to a level at which the ACBR is now able to function successfully without support from the project. All of ACBR's operational costs are also included in the GIROA national budget; with both steps completed, the ACBR is now a self-sustaining entity as part of GIROA.
- **Improved ABCR forms and branding:** The ACBR team helped redesign new standard-format forms that will make business registration easier and reduce fraud, and that combined with a new logo will improve public knowledge of the ACBR brand.
- **ACBR expansion in Kunduz and Jalalabad:** The project supported the establishment of a new MoCI regional building in Jalalabad that the local ACBR office moved into. With the project's technical and financial support, a new ACBR office was then established in Kunduz, the fifth site opened with USAID/EGGI support. The office will also cover registration for neighboring provinces of Takhar, Badakhshan, Baghlan and Kapisa, and its opening represented the culmination of technical mentoring of the ACBR staff, who will be able to independently open the next ACBR site.
- **Improved bankruptcy law:** For the first time, a modern Bankruptcy law was drafted for Afghanistan. The law replaces the previous 60 year old bankruptcy law, which was ill-suited to Afghanistan's modern economic environment. Enacting the law will provide for positive changes to commercial court procedures, which will hopefully improve Afghanistan's rank in the World Bank Doing Business report.

### Timeline of Key Events under EGGI Component 2:



# Afghanistan Central Business Registry

## Background

The Afghanistan Central Business Registry (ACBR) was established in January 2007 as part of the Laws on Corporations and Limited Liability Companies, Partnerships, and Arbitration, which required that Afghan businesses be registered at a central registry. The ACBR's first branch was in Kabul, but it has since expanded to five provincial locations and has accepted over 40,000 business filings. The EGGI project and its predecessors have provided technical assistance to the ACBR through its development, and helped it to expand and mature. Some of the ACBR's major accomplishments throughout its existence with the project's support have been to reduce the number of steps required to register a business, to expedite total time required to register, and to set a flat registration fee.

During Year 1, the project supported the ACBR through a range of technical and financial assistance. Key activities included establishing the ACBR Directorate under the MoCI, and expanding it to five major provincial branches. Goals for the workstream in Year 2 were to further simplify the ACBR registration process; to enhance the web-enabled ACBR application; and to build capacity of the ACBR Directorate to fully take over operations and run ACBR registration without support from the project.

## Year 2 Results with USAID/EGGI Assistance

The ACBR team was able to make consistent progress throughout Year 2, focusing attention on the ACBR's geographic expansion and technical development. The team kicked off the year by helping to create an Operations Manual defining operations and policies to be followed for ACBR offices throughout Afghanistan. In October 2010, **the project helped the ACBR continue expanding its reach across the country by supporting the establishment of a new MoCI regional building in Jalalabad**, enabling the ACBR regional office to move from the MoF Mustofiat into the new MoCI building and improve collaboration with MoCI regional directorates. In the same vein, the project then supported the opening of a new ACBR office in Kunduz province in November 2010, which will also handle business registration for the neighboring provinces of Takhar, Badakhshan, Baghlan and Kapisa. The project also promoted ACBR's technical development in this timeframe by delivering and installing IT equipment to ACBR offices in Kabul and Kandahar, including computers, software, and network tools to support ACBR functionality.

The project's support of ACBR development coincided with strong business registration performance over Year 2. During FY2011, there were 15,570 business filing transactions with ACBR, averaging close to 4,000 registrations per month. Due to MoCI and regis-



trants' lack of knowledge about types of business entities, the majority of these filings were previously just categorized as limited liability companies. EGGI delivered technical assistance and outreach to improve clarity on distinct types of business entities and the value of properly organizing one's business. This assistance led to the proportion of ACBR filings as LLCs decreasing from the project's Year 1 to Year 2, and an increase in the proportion of partnerships, corporations, and sole owner enterprises (see graph on following page). In FY2011, there were 12,557 new business registrations, showing continued strong private sector growth, and also 140 ACBR filings of women-owned business, an increase of 13% over the previous FY. These figures showcased the continued development of Afghanistan's private sector and both GfRoa and the project's success in getting businesses to formalize operations by legally registering.

Moving into 2011, the project supported the ACBR's strategic planning and brand development, and increasing public outreach and awareness. **The ACBR team helped to redesign the ACBR's logo (shown above) around the slogan "Fast and Efficient," creating an appealing image that could be used in all ACBR publicity efforts.** The logo is now used on all official documentations, communication, and certificates of registration with ACBR. In January 2011, the ACBR team then helped to prepare the ACBR Vision Document, which sketches out a vision of the ACBR as an efficient, web-based, and modern registration system for Afghanistan which will be strongly recognized all over the country. The project also facilitated this goal by working as part of the outreach campaign, and further socializing the new ACBR logo.

After assisting in ACBR brand development, project advisors set to improving actual ACBR processes. The ACBR team provided suggestions to the MoCI for streamlining ACBR business registration processes, including registering as a legal entity prior to obtaining a tax identification number (TIN), an internationally recognized best practice. The ACBR team lobbied successfully for the use of a standard business registration form, another best practice for limiting fraud in registration. Additionally, **the project created a draft of a new, shortened ACBR registration form to remove redundant data and save applicants time.** Finally, advisors helped the ACBR plan for integrating trademark registration as a part of business registration processes, helping to further consolidate the ACBR as a "one-stop shop" for all facets of business registration.

*Continued on page 38*



Minister Ahadi presents his speech during the inauguration ceremony of the MoCI Eastern Zone (Jalalabad) Office

# Afghanistan Central Business Registry

Continued from page 37

Across Year 2, the project also contributed in-depth information technology assistance to the ACBR in a variety of facets. In May 2011, project advisors worked in conjunction with the Ministry of Communications and Information Technology (MCIT) and MoCI to create a page on the MoCI's website that publishes data retrieved from the ACBR database. The webpage helped increase public access to ACBR data, further improving transparency of business information to the Afghan public.

**The major activity in the project's technology-based assistance to ACBR was making enhancements to the ACBR registration application.** The enhancements included the overall transition of the ACBR to being a web-based application; improvements to the user interface; and an improved printing interface that enables ACBR to prepare forms more easily for applicants' signature. These enhancements were integrated as a part of the new web application, which was delivered in September 2011 after being socialized with ACBR staff and the ACBR director. A screenshot of the new application interface can be seen at right. The project team also delivered training on the new application to ACBR provincial managers and MoCI staff in July and August, resulting in improved GIRoA capacity to take ownership of the system and maximize the benefit of its new enhancements. As a whole, EGGI/ACBR's technology assistance and delivered enhancements helped to improve the usability of the ACBR database and make business registration processes more efficient. With these enhanced tools, ACBR will be able to reduce the time needed to register businesses and deliver broader service.

Finally, advisors worked throughout the year to build the MoCI/ACBR Directorate's capacity to take over the ACBR workstream and independently run the enhanced web application. The project team managed the transition of work to GIRoA counterparts by creating a transition plan for MoCI/ACBR in work breakdown format, conducting formal training sessions, and producing a tutorial manual with video guidelines that can be referred to if ACBR has any operational issues. This work all culminated in a successful upload of the enhanced ACBR web application on September 10, followed by a formal transfer of ownership to the MoCI.

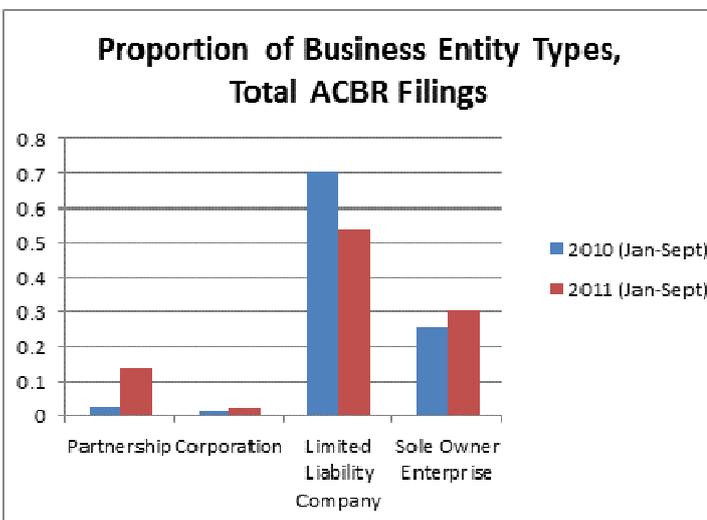


Screenshot of main ACBR web application interface, including user controls

## Conclusions/Lessons Learned

EGGI's experience with MoCI on the ACBR hand over reinforced the value of effectively transitioning technical assistance with a high degree of transparency and detailed scheduling, especially in the case of a developing world counterpart who is still highly reliant on donor assistance. The project was transparent about the transition, created specific transition plans and tutorial materials, and empowered MoCI/ACBR counterparts to take incremental ownership of key activities. These actions are particularly important in Afghanistan because of the high number of donor-funded assistance projects that GIRoA agencies are highly reliant on, but may start or stop abruptly due to changing donor priorities and funding. The project's ACBR team gave advance notice to MoCI/ACBR that the workstream would end in September 2011, so counterparts had adequate time to appropriately plan for taking ownership of workstream activities. Transition plans also included specific tutorials and instructions for handover of technical areas, assets, and project deliverables, and were socialized widely with MoCI counterparts. All these activities ensured that MoCI/ACBR had adequate capacity to take over all ACBR activities and the web application, and could maximize the utility going forward of the work that the project's advisors completed.

Future progress related to business registration in Afghanistan will also be highly contingent on public outreach and education, and the ACBR's effective communication of the benefits of formal business registration. This will have to parallel a continued maturation of the licit economy in Afghanistan and a private sector consensus on the benefit of operating through official GIRoA processes. ACBR's progress across the project's Year 2 has achieved clear successes in these areas by helping publicize and better brand the ACBR, and issuing recommendations to make registration processes easier for entrepreneurs. Finally, in the future more progress must also be achieved in the country's commercial legal framework, including passage of the ACBR Regulation that is still in review with the Minister of Commerce and Industries.



## Background

Because Afghanistan's is an evolving post-war economy that needs to spur private sector growth in order to achieve economic development, there is a key need to improve commercial laws that govern the sector. Many existing laws are outdated and reflect far different circumstances than Afghanistan's commercial sector currently faces. In Year 1, for example, the project worked closely with the MoCI to draft a new Bankruptcy Law, as the previous law dated to 1942 and was virtually unused. The outdated law was one of the main reasons Afghanistan received a last place ranking on the "Closing a Business" indicator in the World Bank's Doing Business Indicators rankings. With EGGI assistance, a new law was drafted to be taken forward in Year 2 that addressed flaws in the existing system and included a provision establishing a working system for dealing with business insolvency.

To address such issues and help promote the development of a rational commercial law framework in Afghanistan, project advisors worked with the MoCI Legal Directorate to draft new commercial legislation and regulations, and conduct analysis on what legal structures may be impeding commercial operations. In Year 1, the project focused on clarifying and rationalizing rules related to company organization, business registration, resolution of business insolvencies, and alternative dispute resolution. Continuing that direction of work into Year 2, the project aimed to assess Afghanistan's commercial legal and regulatory framework, improve the MoCI's legal reform process and prioritize its legal agenda, and complete analysis and support drafting of key commercial laws, amendments, and regulations.

## Year 2 Results with USAID/EGGI Assistance

The project's core technical assistance in Commercial Law focused on providing legislative support to the MoCI Legal Directorate and drafting new/updated laws and regulations. The major content drafted by the team includes **updates to Afghanistan's Bankruptcy Law** that had been drafted in Year 1; the draft ACBR Regulation; the Business Naming Procedure; and amendments to the Corporation law. The majority of these laws/regulations remain under review by various GIRoA entities. The team also contributed continued analysis on commercial laws and regulations that have been passed in recent years and their effect on the private sector, including the Corporation and Limited Liability Company (LLC) Law, Mediation Law, and Agency Law.

Concurrently with these efforts, **the project supported MoCI to advance the legislative process of establishing the new Bankruptcy Law.** Following completion of an early draft law in

Year 1, the project's Year 2 assistance centered on further developing the law and soliciting stakeholder feedback to ensure it addressed conditions unique to the Afghan business climate. During October 2010, the project supported MoCI to host public consultation events in Mazar, Herat and Kabul to obtain stakeholder feedback on the recently released draft law. The purpose of the events was to review the draft law with key stakeholders - Afghan business leaders, academics, and public officials - and discuss participants' concerns and implications of the new law. Useful feedback was received that was then incorporated into the subsequent drafting process, making the law more relevant to the Afghan business climate. For example, the new law sets out the establishment of a working system for dealing with business insolvency. An improved structure for addressing insolvency will likely improve the climate for lending and investment in Afghanistan and help to promote private sector growth.

The Commercial Law team also provided collaborative assistance to the EGGI project's ACBR and DBBI workstreams on legal matters, providing a comprehensive support structure to MoCI in pushing forward commercial reform. In Q4, the team conducted research to support the DBBI workstream that culminated in a **summary document containing the laws, regulations, licenses and procedures affecting the World Bank's Doing Business indicators.** The document's information was critical for the DBBI Working Groups, facilitating decision-making on the Working Groups' reform priorities. In support of the ACBR workstream, the Commercial Law team continued work on a draft ACBR Regulation, which is intended to ensure appropriate, safe, and convenient conditions for registration of business entities with MoCI. The draft was completed by the team and submitted to MoCI, but remains in review.

Finally, EGGI provided research input to USAID's Office of Economic Growth on considerations for legislative and regulatory reforms in support of the Afghanistan Strategy for Prosperity, Infrastructure and Regional Engagement (ASPIRE) initiative. EGGI delivered a report in June 2011 that analyzed key legislative issues relevant to ASPIRE including the timeline of the Afghan legislative process, the lack of consistency between national planning initiatives and legislative planning, the importance of continued progress on commercial legal reforms, and the need for effective coordination of donor-supported legal reforms in the commercial and economic sectors.

## Conclusion/Lessons Learned

While the Commercial Law workstream achieved important milestones during Year 2, progress was impeded by human resources issues with GIRoA counterparts. Most prominent was that the position of Head of the MoCI's Legal Directorate remained vacant for more than seven months, and the ministry lacks a Legal Advisor, as that position was removed from the MoCI organizational chart earlier this year. Without a consistent counterpart to champion EGGI-supported initiatives, progress on various commercial law initiatives remained marginal.

Similarly, the workstream also faced challenges in draft laws and regulations being held up in review by GIRoA entities, including the MoCI. While many of the proposed drafts could expedite and improve business procedures if passed, GIRoA review processes remained protracted and obscure and held up draft documents for long periods. This time scale should be kept in mind for any future efforts to implement reform in the commercial sector legal framework.



Previous Director of the MoCI Legal Directorate, Mr. Mohammad Yousef Rajabi, provides an overview of the draft bankruptcy law at a public consultation roundtable in Herat on October 7, 2010

## Support to MoCI / Doing Business Better Initiative

### Background

The Doing Business Better Initiative (DBBI) was launched in December 2010 in Kabul as a private sector development reform program first called “Accelerating Afghanistan Business Growth” (AABG). The program was a joint effort of the MoCI and EGGI/USAID. The primary goal of the program was to implement sustainable business reform and raise Afghanistan’s overall ranking as reported in the World Bank/International Finance Corporation (WB/IFC)’s annual “Doing Business” report, which tracks several core indicators of the ease of doing business in a country. While Afghanistan’s ranking has been consistently low since the start of publication in 2003, and came in at 167 out of 183 countries in the 2011 report, the project’s DBBI effort is the first time an initiative has been launched to work on reforming business climate in Afghanistan since then.

The DBBI program was intended to consolidate commitment from GIROA, the private sector, and donors for work efforts targeted at a select group of the Doing Business indicators. To do this, Working Groups were formed to address key indicators selected for immediate reform and to promote associated policy changes. The project team was meant to support the groups by preparing discussion and concept notes, highlighting specific tools for reform, mapping GIROA processes related to the indicators, and issuing high-level recommendations for the group’s participants. The overall goal of the workstream for Year 2 was to facilitate the Working Groups’ progress in implementing reforms that would have a positive impact on business development and Afghanistan’s rank in the WB/IFC’s “Doing Business” report.

### Year 2 Results with USAID/EGGI Assistance

The project’s efforts in Year 2 kicked off in December 2010 with a **launch event in Kabul for the AABG program. The event featured previous U.S. Ambassador Karl Eikenberry and the Afghan Minister of Commerce and Industries, Dr. Andwarul Haq Ahady.** The event brought together over 160 senior officials from across Afghan ministries, the donor community, and the private sector, catalyzing the start of the effort with a significant, well-publicized event.

The first tangible DBBI action in Year 2 was then to select the Doing Business indicators where reform was most needed, and establish the associated Working Groups (WG) that would address them. The groups consisted of representatives from government, the private sector, the donor community, and civil society. These Working Groups were the main bodies for outlining challenges, validating obstacles, and recommending solutions for implementing reforms in the selected indicators. Ultimately five indicators were settled on as targets for reform: “Starting a Business,” “Registering Property,”



The EGGI/DBBI team presents final research findings at a gathering at the MoCI on September 28, 2011

“Protecting Investors,” “Trading Across Borders,” and “Closing a Business.”

Monthly WG meetings commenced in December 2010, with the project helping to facilitate the meetings and report on progress. As the meetings were held, advisors also worked to connect DBBI efforts to EGGI regional offices in Nangarhar, Balkh, and Herat; the project’s advisors identified linkages between DBBI efforts and provincial-level business environment activities (such as the Private Sector Development Sectoral Committees (PSD-SCs)), and participated in several of the Kabul-based WG meetings in early 2011. The project continued to support WG meetings through 2011, resulting in better organization and productivity of the meetings and the identification of multiple potential reforms.

In March 2011, the WB/IFC released survey questionnaires for 2012, which collect the data that impact individual countries’ Doing Business rankings. The project supported the survey rollout by coordinating with the DBBI Working Groups and other stakeholders to select survey respondents that represented a wide swath of the Afghan business community. The project then conducted joint briefing sessions with selected respondents about how to complete the surveys and to solicit their feedback on the Afghan business climate. **The effort resulted in a higher proportion of survey respondents (30 out of 37), and better quality responses than in previous years.** In the wake of the project’s efforts, the WB/IFC team expressed specific gratitude for the high fidelity of survey information collected by the DBBI team.

After helping to collect the WB/IFC survey data, the DBBI team started research work to capture regulatory procedures and map processes for three of the five indicators; “Starting a Business,” “Closing a Business,” and “Protecting Investors.” Analyzing these three indicators, EGGI produced **flowchart deliverables for the MoCI Private Sector Development (PSD) Directorate to illustrate relevant processes, and identify where improvements could be made.** Processes and procedures were mapped for each of the three indicators in their relevant GIROA agencies: “Starting a Business” in the Afghanistan Investment Support Agency (AISA) and the Licensing Directorate of MoCI; “Voluntarily Closing a Business” in the same agencies; and “Registering Properties” for multiple relevant GIROA agencies.

*Continued on page 41*

Over 160 representatives from GIROA ministries, the diplomatic community, and international donor implementing partners, listen to presentations at the ‘Accelerating Afghanistan Business Growth’ launch.



# Support to MoCI / Doing Business Better Initiative

Continued from page 40

The project's work in mapping these processes helped to identify key ways that GIRoA could make changes to facilitate licensing and regulatory procedures for businesses. As an example, the analysis for the "Starting a Business" WG diagrammed all the current steps in the MoCI Licensing process and then identified two steps that hindered starting a business (see diagram below). For these steps, "Criminal Background Check" and "Control," the DBBI team discussed the pros and cons of the steps with the WG, and potential ways to improve them. The team ultimately proposed modifications that would retain the steps' core functionality but streamline related processes, helping to reduce start-up time and cost for new business registrants. Another recommendation was to reform the AISA licensing process, especially the required fees. The recommendations were to allow direct submission of licensing fees to a bank, reducing opportunities for corruption, and eliminating or creating a more striated licensing fee structure. The result would be a lessened burden on entrepreneurs, who in Afghanistan pay an average of 27% of per capita income to start a business (compared to 5-7% per capita income in most developed countries).

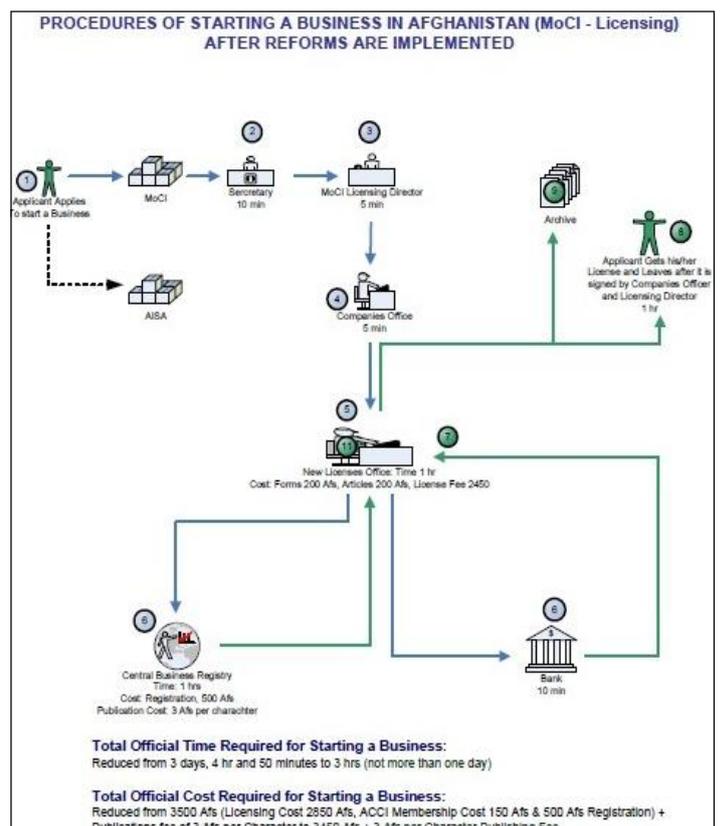
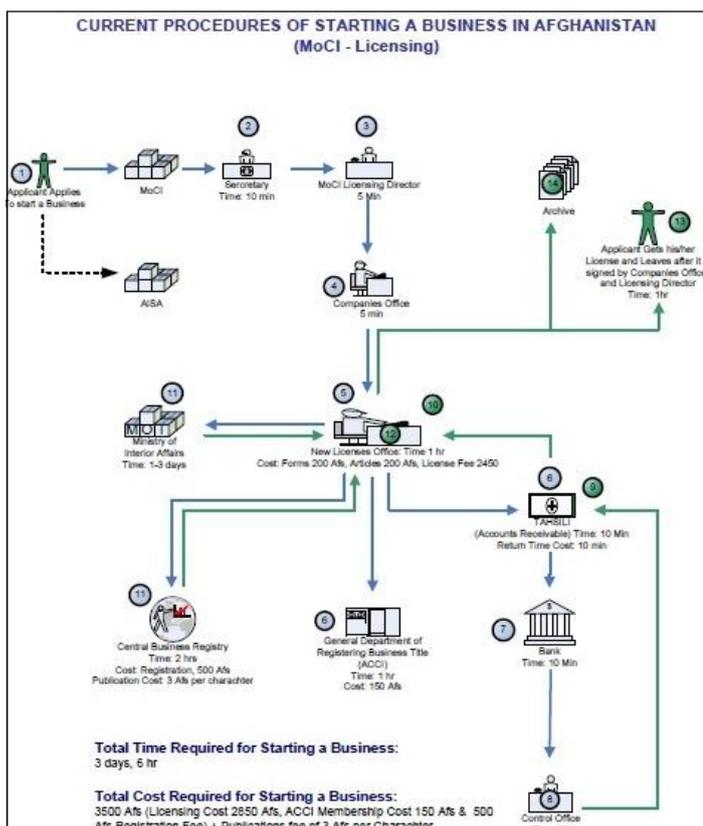
To conclude the year, the project summarized its analysis on areas for improvement within the DB indicators by producing a high-level document on the key laws, regulations, procedures that impacted Afghanistan's rank in the Doing Business report and country's broader business environment. The project also prepared a concept note detailing the challenges faced by the DBBI and how to move the initiative forward after direct EGGI support concluded at the end of September 2011. These documents and all DBBI deliverables were presented and handed over to the MoCI during a gathering which took place on Sept 28th, 2011 at the MoCI Conference Hall. Representatives from different donor agencies

engaged in private sector development in Afghanistan were present, and praised the critical work of the EGGI DBBI team in setting a strong foundation from which to implement private sector change.

## Conclusions/Lessons Learned

Similarly to the ACBR workstream, a central lesson learned for the DBBI was the importance of transparently transitioning work to GIRoA counterparts given Afghanistan's unique development climate and GIRoA bodies' reliance on donor assistance. Because the DBBI Working Groups were well informed of the workstream ending in September 2011, and the transition was formalized through the handing over of documents and deliverables at the Sept 28th event, it enabled the MoCI to more smoothly take ownership of the DBBI work. This continuity created better prospects for the EGGI-recommended reforms to actually be implemented, and lead to tangible improving Afghanistan's Doing Business ranking. However, one factor impeding this potentiality is the stagnation of the Working Groups after EGGI work ended, despite the smooth hand-over of materials. This demonstrates that there is still a need for stronger GIRoA commitment to improving its business ranking; this may be more achievable were GIRoA to issue a mandate for the Working Groups, but such action has not yet been taken.

Finally, the project showed great improvement in issuing WB/IFC surveys to business actors and obtaining a higher response rate than in the past. However, with only 30 total respondents, the survey for Afghanistan still needs a much larger sample size to better reflect the state of the business sector. Continuing to improve the reach of the survey into the future through more numerous respondents will help to improve reliability of data, making the survey more useful for Afghanistan decision-makers.



# Component 3(olD): Private Sector Development

## Economic Growth and Governance Initiative

### Component 3: Year in Review (Oct 2010—Mar 2011)

During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, some Component 3 workstreams closed for the remainder of the contract year and successfully wound down in accordance with the realigned priorities. By March 2011, the former Component 3, *Private Sector Development*, was complete, with the exception of certain workstreams that became the revised project's "Component 2." The strategic objective of the original Component 3 was to promote private investment in industries and businesses, and to advance GIRoA efforts to put in place a sound enabling environment that improves economic competitiveness, reduces unnecessary government interventions, promotes transparency and predictability, and encourages private sector growth.

To advance these goals, the project supported the Ministry of Commerce and Industries (MoCI), Ministry of Communications and Information Technology (MCIT), the Afghan Telecom Regulatory Authority (ATRA), and the Ministry of Mines (MOM). In addition, the project supported GIRoA institutions at the provincial level, specifically the Private Sector Development Sectoral Committees (PSD-SCs) in Herat, Balkh and Nangarhar provinces. The PSD-SC comprises several key GIRoA institutions that advance private sector development at the provincial level. Although these workstreams had all ended by the second quarter of Year 2, significant progress was made to enable private-sector-led economic growth.

In telecom, the project supported MCIT efforts to advance the Optic Fiber Cable (OFC) project to improve service delivery of modern telecom services throughout Afghanistan. The project also worked with MCIT to restructure and reduced wholesale internet prices, which currently add to the high cost of doing business in Afghanistan, by restructuring wholesale internet prices by zone and volume.

Project advisors also assisted the ATRA Telecom Development Fund (TDF) program to award subsidies to licensed operators to expand network coverage to rural communities. As a result services were expanded to 124 of 143 underserved districts, bringing modern telecom services to over 50,000 people. The project also supported ATRA to enhance its regulatory authority by guiding revisions to the Telecom Law and preparing a roadmap for implementation of those revisions.

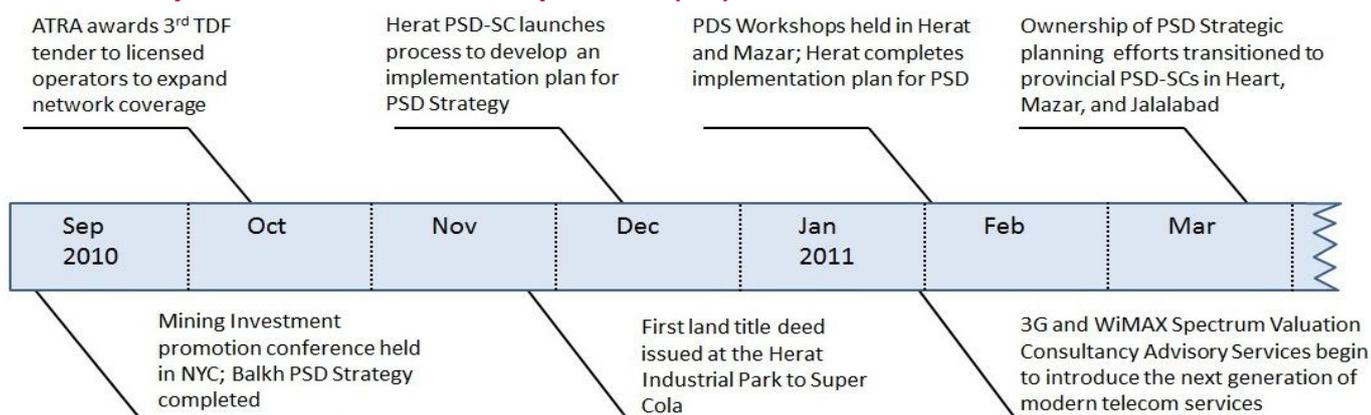
In the mining sector, Afghanistan's lucrative mines present a major opportunity for revenue generation and industry growth. To attract potential investors, the project facilitated a major investment promotion conference in New York City. Advisors also prepared a mining sector strategy that shows the sector's potential revenue contributions to GIRoA.

To promote provincial private sector development, EGGI also supported provincial governing councils in Herat, Mazar, and Jalalabad to develop and implement Private Sector Development (PSD) Strategic Plans. The PSD strategic plans were intended to improve the business enabling environment in the provinces and stimulate private sector investment, small business creation, and job growth.

#### Year 2 Outcomes as a Result of USAID/EGGI Assistance:

- **Increased Internet access and private sector growth in the telecom sector:** EGGI facilitated commercial agreements with neighboring countries including Turkmenistan and Pakistan to advance progress on the OFC network. This project will improve Afghanistan's telecom infrastructure allowing for expansion of services into rural communities. These efforts contributed to increasing internet access from 1.3 million to 1.4 million citizens.
- **Lower internet costs:** The project helped negotiate a deal with Pakistan's Wateen Telecom to obtain access to subsea cables in the Arabian sea. Advisors supported MCIT negotiations that resulted in a 43% reduction in up-front charges and a 20% reduction in annual operations and maintenance charges. This enables lower prices charged to Afghan consumers.
- **Improved business enabling environment in the provinces:** Development of concrete PSD Strategies facilitates improvements to the business climate and promotes investment into the regions. Assistance in the areas of strategic planning, policy development, investment promotion, operational streamlining, organizational restructuring, among other reforms promote sound economic governance and private sector development.
- **Maturity of telecom regulatory framework:** ATRA selected a firm for 3G Advisory Consultancy Services to assess readiness of the Afghan market for 3G and Worldwide Interoperability of Microwave Access (WiMAX) services. This reflects ATRA's maturity as a regulatory body as they commence the process of expanding 3G in Afghanistan.

#### Timeline of Key Events under EGGI Component 3 (old):



## Telecom: OFC Agreements (de-scoped February 2011)

### Background

Five years ago, the Ministry of Communications and Information Technology (MCIT) awarded a \$70 million contract to ZTE (China) to construct an Optical Fiber Cable (OFC) Ring Network around Afghanistan following the National Ring Road. Afghan Telecom (AfTel) is the project manager, operator and marketing organization for OFC project. Roughly 60% of AfTel's revenues are generated by the OFC network. The project is expected to grow by 85-90% by the end of FY 1389 with revenue projections near USD 17 million.

When finalized the OFC will cover 3,100 km and connect Afghanistan to other countries, significantly improving telecommunications connections. This will improve Afghanistan's overall development, as businesses and NGOs will be able to send and receive data at speeds far greater than before. Through this initiative, AfTel is pioneering new and successful implementation of the latest telecommunication advancements and improving service delivery to the citizens of Afghanistan. The OFC will enhance AfTel's ability to provide a wider range of services and offer more competitive pricing schemes, which will ultimately improve access to modern telecom services for citizens in Afghanistan.

During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, telecom related workstreams were de-scoped for the remainder of the contract year and the workstream was successfully wound down in accordance with the realigned priorities.

### Year 2 Results with USAID/EGGI Assistance

The project's assistance to AfTel in the first quarter of Year 2 focused on securing the final cross border agreements with Turkmenistan on the OFC. The project also helped achieve a 50% reduction in wholesale internet costs for Afghan Internet Service Providers (ISPs), which will ultimately help expand Internet access and increase the Internet penetration rate. EGGI also helped advance international commercialization of AfTel through a greater emphasis on marketing. To this end, EGGI supported AfTel to release three monthly newsletters to over 1,000 customers and sector stakeholders worldwide. Additional areas of assistance included reduction of IP costs, introduction of Afghan transit to international carriers, new OFC sales opportunities, and enhanced IP service partnerships with global operators.

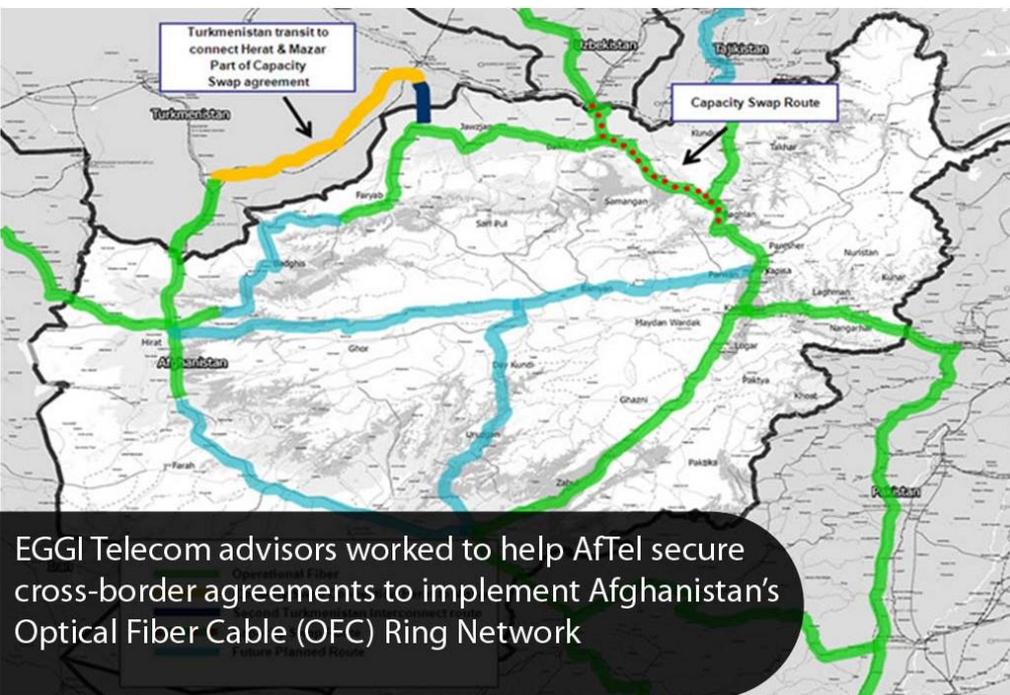
During October 2010, project advisors supported AfTel to make progress in network expansion efforts by facilitating an agreement with the Turkmenistan Ministry of Communications (MOC) to secure the final cross border interconnect site on AfTel's Optical Fiber Ring Network. The agreement was significant as it facilitated a capacity-sharing arrangement between the two telecom providers that will allow AfTel to use Turkmen MOC network capacity to connect Herat to Mazar-e-Sharif while the National Ring Road OFC is completed.

Following the agreement, Minister Sangin of the MCIT approved OFC construction at the new interconnect site in Northern Afghanistan to Aqina, on the Turkmen border. This is the second trans-border crossing to Turkmenistan. AfTel completed the first interconnect earlier in the year, building an OFC extension in the west to Turghundi from Herat. Both AfTel and the MOC agreed to connect to the other's crossing: AfTel to Aqina, and MOC to Turghundi. Completion of this double border crossing facilitates the linkage of two major Afghan economic centers, and allows AfTel to expand its services to reach more customers.

The Turkmenistan interconnect significantly expands AfTel's network options. Direct connection between these two communities of interest generates increased demand and facilitates lower costs to consumers for voice, data, Internet, and video services.

The project's support to AfTel to expand network capacity and service options directly contributes to AfTel commercialization, and provides additional revenue to AfTel, creating more value for future privatization efforts.

AfTel, with project support, also negotiated multiple international fiber optic connections to lower internet costs and expand network capacity. Support consisted of helping AfTel leadership to negotiate capacity sharing agreements and to draft briefs to prepare for negotiations. To the east, AfTel pursued a Dim Fiber Purchase in Pakistan through Wateen Telecom. Dim Fiber is an optic transmission system that can support multiple wavelengths running simultaneously over a single optical fiber. The opportunity to purchase Dim Fiber is a milestone ICT opportunity for Afghanistan and for the growth of AfTel's services and revenue base. The agreement will potentially reduce transit costs and provide highly coveted access to the subsea cables in Karachi which will give AfTel an outlet to the rest of the world.



In support of the negotiations, EGGI initiated a Telecom Dim Fiber-Pakistan (DFPK) business case team with officials from AfTel and MCIT to be used to lobby government officials to commit funds. The project helped MCIT negotiate a 43% reduction of the upfront costs in Wateen's initial offer, but MCIT and AfTel required approximately \$30M during the second quarter to pursue the deal. Options discussed with the MCIT Minister Sangin to self-fund included offering transit to Uzbekistan, Tajikistan and Turkmenistan and long term capacity leases to Afghanistan GSM and ISP operators. This option is a positive move for a more competitive ICT environment in the fixed line market. However, the transit and leases will not generate the total required funds in the short-term. The business case team developed alternative funding options and recommended

*Continued on page 44*

# Telecom: OFC Agreements (de-scoped February 2011)

Continued from page 43

a combination of GIROA and donor support. If the purchase is successful it will increase competition for domestic and international telecom services and lower the cost of internet service.

During the period of assistance, MCIT showed improved responsiveness to addressing the issue of high internet costs in Afghanistan. At the project's recommendation, Minister Sangin agreed to reduce wholesale Internet prices for Afghan ISPs providing service to citizens in the country's most densely populated zones (Kabul, Mazar, Herat, and Kandahar). The price reduction strategy will ultimately expand internet access for Afghan citizens in rural areas and pass cost savings on to consumers. For example, AfTel purchases IP Transit from Pakistan Telecom for Kabul and Kandahar at \$550/Mbps/month. AfTel then charges the ISPs \$1500/Mbps/month, one of the highest rates in the world. Under the new pricing scheme, the new wholesale zone prices charged to Afghan ISPs will not exceed \$200/Mbps/month over the zone cost for volume purchases. Thus, once this pricing scheme is finalized, the IP wholesale rates for Kabul/Kandahar will drop to \$750/Mbps/month, a 50% reduction in cost. Such reductions in Internet access costs will make Internet more affordable to the public and increase the Internet penetration rate (estimated to be at 3.4%). Also, these reductions will generate more interest in mobile 3G services which are heavily Internet usage-based, making service more attractive to the public and consequently to GSM operators. As a result, pending 3G and WiMAX licenses will have considerably more value at auction which equates to more revenue for the MCIT and GIROA.

The project also helped advance GIROA-wide coordination of ICT assistance efforts. Via the "Support to the MCIT on Optical Fiber



During the first GIROA IT coordination meeting, GIROA officials brief AfTel CEO, Gul Ahmad Rastman, on IT requirements at their respective organizations. The meeting was an opportunity for AfTel to learn of potential business opportunities and gain insight from customers on existing services and quality.

Cable Connections" workstream, the project facilitated interagency coordination on GIROA-wide ICT issues as a core member and regular participant in the Telecom Working Group (TWG). The TWG is convened on a biweekly basis by the Economic counselor at the American embassy in Kabul. The TWG includes all of the DOD components active in Afghan ICT, including USFOR-A, CSTC-A, DISA plus corresponding ISAF units. EGGI provided routine updates on the key elements of policy-making at MCIT, relevant legal-regulatory actions (or inactions) at ATRA, as well as major initiatives such as the national fiber optic ring construction, the cross-border fiber optic connections to Pakistan, Iran, Tajikistan, and elsewhere. When the project worked in telecom, advisors worked closely with the USG to define and stand-up the Telecom Advisory Team (TAT) reporting to COMISAF, which is funded by DISA and the DOD Task Force for Business Stability Operations (TFBSO), to ensure that the numerous ICT workstreams that were initiated by USAID under EGGI would remain sustainable following the departure of advisors.

Project efforts also helped advance international commercialization of AfTel through marketing, coordination of GIROA wide meetings, and supporting Minister Sangin at international conferences to build prominence on the world stage. AfTel, with advisor support, released three monthly newsletters to a greater number of customers and sector stakeholders with each successive edition. This activity contributed to AfTel's efforts to become a more customer-centric organization by providing news to its current and potential customers. As AfTel reinitiates privatization efforts, outreach such as the newsletter will provide interest and value to the organization. To develop relationships and communication channels within GIROA, AfTel also initiated a GIROA IT Coordination meeting. The bi-weekly meeting is an opportunity for AfTel to meet with GIROA officials and learn of IT requirements at various agencies and potential business opportunities. AfTel's CEO welcomed the open communications as the first step in developing better relationships, supporting requirements and increasing service quality. As AfTel anticipates its second fiscal year with profits, continued growth in the government sector has become a priority.

## Lessons Learned

The privatization of AfTel will strengthen the progress of ICT development in Afghanistan. Commercial, private-public partnerships with experienced operators are a temporary, short-term fix, but not a long term solution for the country. Despite dedicated employees in AfTel, the organization is not commercially viable as a state-owned enterprise having to function under GIROA hiring policies and wage scales, procurement processes, and dependence of the entire organization on direction from the MCIT. Privatization, with the follow-on liberalization of the sector, should be a priority for GIROA and the donor community. The liberalized, Afghanistan mobile market is an example of what the private sector could do to provide services for the nation.

## AfTel's Cost Reduction Strategy is passed to Afghan consumers

AfTel purchases IP Transit from Pakistan for Kabul and Kandahar at:	\$550/Mbps/month	
		+
Mark up:	\$950	=
AfTel's former price: charged to consumers	\$1500/Mbps/month	

### NEW PRICING SCHEME:

AfTel still purchases IP Transit from Pakistan for Kabul and Kandahar at:	\$550/Mbps/month	
		+
Under new pricing scheme, AfTel cannot charge over \$200 Of the Zone cost:	\$200	=

New price charged to consumers: \$750/Mbps/month

**Cost savings = \$750Mbps/month**

## Telecom: ATRA/Telecom Regulatory Framework Enhancement (de-scoped February 2011)

### Background

The project built off successful Year 1 support to the Afghanistan Telecom Regulatory Authority (ATRA) and MCIT focusing on the re-launch of ATRA, which has developed both institutionally and in regulatory expertise since its establishment in June 2006. It is now in the mature stage of regulatory management and capacity to guide the sector in new technology implementation with emphasis on quality of service and customer protection. Assistance under this workstream focused on supporting ATRA to improve the Telecom Regulatory framework, expanding access to modern telecom services for rural communities, and preparing ATRA to bring next wave telecom services to Afghanistan, including 3G and WiMAX.

Expanding network coverage for mobile and internet communications is critical to enable economic growth. To help expand access to telecom services and improve service delivery for the citizens of Afghanistan, the project assisted ATRA in disbursement of roughly \$50M in funds held within the Telecom Development Fund (TDF), intended to increase access to telecom services for underserved populations. Since the initial TDF tender in 2010, awarded contracts have resulted in subsidized telecom network expansion into 124 of the 143 “un-served” districts in Afghanistan. At the end of EGGI assistance in February 2011, ATRA had awarded 84 new contracts to licensed telecom operators. This milestone is significant as now more than 100,000 citizens in rural locations will have access to modern telecom services. In total, ATRA has helped to facilitate network expansion covering 379 of 398 districts in Afghanistan.

During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, telecom workstreams were de-scoped for the remainder of the contract year and the workstream was successfully wound down in accordance with the realigned priorities.

### Year 2 Results with USAID/EGGI Assistance

During the first quarter of Year 2, ATRA, with project support, developed revisions to the Telecom Law strengthening the regulatory framework and expanding the scope of ATRA’s authority. Specifically, the revisions expanded the scope of TDF services to include Internet services and funding for both telephone and Internet services to schools and hospitals in Afghanistan. The project also developed a “Roadmap for implementation” of the new law, and revisions in the ATRA Code of Practice. The new Telecom Law strengthens ATRA’s authority as a telecom regulator, empowering it to better regulate the sector and improve service delivery in Afghanistan.

### TDF Tender Facts

*TDF subsidies awarded in November will expand network coverage in:*

- **124 of the 143** un-served districts in Afghanistan
- **379 of 398** total districts

*All sector operators are participating in the Tender to expand coverage in rural communities around the country.*

now participated in the TDF tendering process and all have been (or will be) awarded TDF subsidies for expansion into un-served districts in rural Afghanistan.

ATRA also made marked progress toward expanding telecom services to rural communities in Afghanistan through the TDF tender bid and award process. In October and November 2010, ATRA announced the third and fourth TDF tender awards expanding network coverage into 67 and 17 districts respectively. Official award of these contracts to licensed telecom operations is a significant milestone as it is estimated that an additional 50,000 citizens in rural Afghan communities will now have access to modern telecom services. The project assisted ATRA with the TDF tender process and in research and planning for network expansion. Significantly, all sector operators have



ATRA Chairman Abdul Wakeel Shergul (left) formally awards TDF tender contracts to licensed Afghan Telecom operators at a press conference at MCIT on October 28, 2010

To address remaining un-served areas, ATRA, with project support, commenced review of potential options to obtain sector operator bids for the remaining 19 un-served districts. Lack of security in those areas is the main reason operators have been reluctant to extend their networks. The project supported ATRA’s TDF group to work with ISAF’s TAT Coordination Program to determine options for telecom network expansion into remaining locations. ISAF programs are considered key to service establishment and delivery in these high-risk contested locations.

ATRA continued to demonstrate its growing maturity as a telecom regulatory authority in pursuing introduction of the next generation of telecom services to Afghanistan. This action is critical to expanding access for citizens and lowering costs. EGGI helped ATRA to advance efforts to introduce these services by facilitating a Spectrum Valuation Consultancy to advise ATRA and the MCIT on introduction of 3G and WiMAX services. In January, ATRA signed a contract for the consultancy with Walters and Associates, Inc., resulting in an assessment of Afghanistan telecom sector readiness for 3G and WiMAX service capabilities, as well as recommended frequency spectrum prices.

Additionally, the project supported ATRA to investigate the introduction of services such as Mobile Number Portability (MNP), and In-Flight Mobile Services, both of which are also evidence of ATRA’s progressive maturity as regulatory authority. In support of fostering more competitive pricing schemes, the project prepared a proposed Public Consultation for the introduction of MNP. Number portability is a telecommunications network feature that enables end users to retain their telephone numbers when changing service providers, service types, and/or locations. It is also a key factor in enhancing competition in a multi-operator environment.

Finally, the project also provided mentoring to staff on complex regulatory issues including development of a Special Temporary Authorization (STA) for alternate supply of hi-capacity private line circuits to international forces. The project also developed a set of recommendations for upgrading the Afghanistan Telecom Regulatory Authority (ATRA) website including new graphics and revamping layout. The new design and re-launch align it with international best practice standards for telecom regulatory authority websites. The ATRA website had not been updated in design and content since 2006.

### Conclusions/Lessons Learned

Continued support to ATRA will help ensure smooth implementation of the new Telecom Law and updates to its Code of Practice. Progress should continue on the 3G Spectrum Valuation Consultancy, MNP, and In-Flight service proposals. In developing countries, the introduction of MNP has stimulated more competitive pricing schemes for mobile services. The concept of “regulation” has no historic precedent in Afghanistan and technology often moves much faster than government, so it will take much more technical assistance to bring ATRA up to international standards, especially with respect to the so-called “convergence” services, such as mobile money and web-enabled electronic commerce on 3G smartphone devices.

# Telecom: ATRA Financial Statement Support (de-scoped March 2011)

## Background

ATRA has struggled with capacity in its Finance and Accounting Departments since 2006. Internal control weaknesses resulted in outstanding reconciliations of bank statements for the financial periods starting from commencement of ATRA's legal operations in mid-2006. Given that ATRA is recognized by the Telecom Law as an autonomous body under MCIT, it is authorized to collect revenues from telecom and internet service providers towards licensing fees. To instill confidence within GIRoA and the donor community, it is essential that ATRA maintain its books by following generally accepted accounting principles and preparing financial statements that accurately reflect its financial position. In an effort to build this confidence, and with the aim of supporting both transparency and accountability, Minister Sangin of the MCIT requested EGGI to provide financial statement review and audit assistance to ATRA finance and accounting staff.

During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, telecom related workstreams were de-scoped for the remainder of the contract year and the workstream was successfully wound down in accordance with the realigned priorities.

## Year 2 Results with USAID/EGGI Assistance

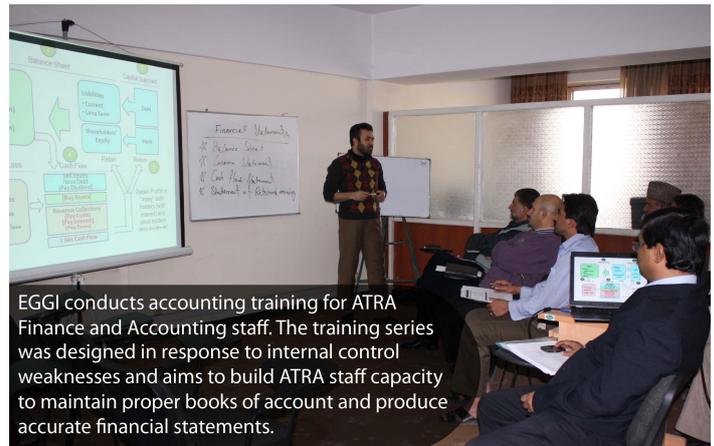
Responding to the near absence of internal controls, the project adopted a continuous but gradual process for developing ATRA's accounting and financial management systems. Accordingly, advisors guided ATRA management to introduce the physical verification of cash at regular intervals, prepare bank reconciliation statements for each of the ATRA and TDF bank accounts, and file payment vouchers in serial number order and in the date sequence. Daily physical counting and reconciliation of cash that began in January continued

### By the Numbers:

By March 2011, the project provided 214 person-days of training in accounting and financial statement assistance to 9 ATRA Finance Department

until the end of assistance in March 2011. The project also began examining the internal controls for the determination and receipt of different types of license fees. None of these systems previously existed within ATRA. This activity was conducted in tandem with preparing/correcting the books of account of ATRA including preparation of bank reconciliation statements of ATRA bank accounts since 2006.

To build accounting staff capacity to complete reconciliations, the project began classroom training for audit and accounting staff in December. The curriculum was determined by a baseline capacity assessment to measure basic accounting knowledge and experience. Advisors then created a comprehensive training plan comprising both classroom and on-the-job training. The training curriculum responded to financial management and internal control weaknesses observed in ATRA operations. Each class included presentations and demonstrations of key concepts. To ensure sincere attention of the trainees, pop quizzes were conducted after every five sessions and tests were administered following each subject chapter. Classroom training was supplemented with on-the-job training and accounting software training, aimed at bringing ATRA staff up to a credible level of capability to perform the duties of maintaining proper books of account and producing financial statements. Training continued through the second quarter when EGGI assistance to ATRA ended.



EGGI conducts accounting training for ATRA Finance and Accounting staff. The training series was designed in response to internal control weaknesses and aims to build ATRA staff capacity to maintain proper books of account and produce accurate financial statements.

The project also worked closely with accounting staff to conduct reconciliation of ATRA bank accounts balances. This activity included scanning through every individual bank transaction in order to ensure that the books reflect correct bank balances at the end of each financial period. The reconciliations also helped to determine the correct revenue collections over the various accounting periods towards the Spectrum Fund and the TDF. Project advisors also prepared a chart of accounts for ATRA. Due to ATRA's lack of an accounting package, EGGI used a demonstration version of an accounting software package and configured it with ATRA's chart of accounts. This was then used to begin entering accounting vouchers for the FY1385.

To ensure that momentum gained through EGGI on-the-job training was not lost with the conclusion of this workstream, project advisors prepared an Accounting Policies and Procedures Manual. This is a pre-requisite for developing and maintaining the books of account. The manual was complete by March 2011, the end of the current Afghan Solar calendar year, and utilized so that the financial books for year 1390 (starting from March 21) could be prepared according to the manual. The project's advisors worked closely with ATRA staff to socialize the manual, increasing the chances that it will be used by all accounting staff going forward.

## Conclusions/Lessons Learned

Despite the more robust controls that began to be implemented in Year 2, substantial progress on this workstream was hampered because ATRA had not balanced its own checkbook from its account at a commercial bank or reconciled income and expenses for the past five years, much less considered financial controls or reporting. Adequately responding to this context geared work towards rectifying an existing situation, and impeded achievement of setting a stronger foundation for the future. To ensure ATRA financial sustainability into the future, as well as proper controls and accounting, the organization still needs both a high level of support and stronger internal commitment. Despite the substantial size of ATRA accounts, supervision remains poor and still poses a substantial risk of abuse.

## Mining Sector (de-scoped December 2010)

### Background

EGGI's work with Afghanistan's mining sector began in mid-2010 with technical assistance to the Ministry of Mines (MoM) Investment Promotion Department (IPD). The objective was to help the IPD in its mission to accelerate investment in Afghanistan's mining sector. In Year 1, EGGI helped to draft a mission statement for the IPD and recommendations for the department's organizational structure. In Year 2, the workstream's core goals were to continue the maturation and development of the IPD, helping to promote Afghanistan's mining sector, and to create a GIRoA mining sector strategy. During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, assistance to the MoM was de-scoped for the remainder of the contract year and the workstream was successfully wound down in accordance with the realigned priorities.

### Year 2 Results with EGGI Assistance

The workstream kicked off Year 2 by facilitating the *Afghanistan Mining Investment and Business Opportunity Conference* in New York City in September 2010. The event was meant to stimulate investment interest in Afghanistan's mining sector, allow the MoM to develop relationships with mining companies, and disperse information on future mining projects to potential investors. A GIRoA delegation, led by MoM Minister Shahrani and Minister of Finance Zakhilwal, provided details to attendees on the Hajigak Iron Ore deposit, one of the largest unexploited iron ore deposits in Asia, as well as an overview of Afghanistan's recent anti-corruption reforms that make the mining environment more attractive and stable for investors. Minister Shahrani also outlined Afghanistan's national priority programs that would support sector development, including the National and Regional Resource Corridors Program, which is meant to link the country's major transportation infrastructure projects with its mineral deposits. EGGI's planning efforts resulted in a successful conference that brought together GIRoA officials and potential investors, and helped promote vital foreign investment in Afghanistan's mining sector.

Throughout September-December 2010, the project also worked to develop GIRoA's institutions related to the mining sector. Advisors began initial preparations for a comprehensive mining sector strategy detailing the sector's potential contributions to GIRoA revenue, and specifying changes to Afghanistan's mining law that are needed to attract more outside investment. A draft strategy was produced that provided GIRoA counterparts a strong foundation in progressing mining reform initiatives.

Another key aspect of the project's assistance was working with the Civil Service Commission to develop and mature the MoM's IPD. As the IPD continued to mature, the project helped the department with publicity and information outreach to promote further investment. Advisors supported the IPD's publicity efforts by helping execute a



Minister of Mines Shahrani speaks at Nor Aaba gold mine in Takhar province, addressing community concerns



Participants at the Afghanistan Mining Investment and Business Opportunity Conference listen to presentations on mining development and investment opportunities. Over 106 representatives from investment banks, mining companies, government agencies and business leaders attended the event in New York City.

worldwide email publicity campaign to iron ore and steel production companies about the large Hajigak Iron Ore deposit, and by assisting release of the new MoM external website. Project advisors also assisted IPD to prepare a tender package for the Vikadur gold mine site, which included geographical analysis and terms and conditions of tenders for the Vikadur bid. This support was key as it provided the MoM and IPD with a tender package model that can be used for future bids and circulated at international conferences.

The MoM's ability to monitor the progress of mining contracts and the subsequent impact on residents in mining communities, and conduct outreach on the issue, was also critical given the recent surge in both domestic and international media attention over mining sites in Afghanistan. In November 2010, EGGI accompanied Minister Shahrani and members of the domestic and international press corps to visit a gold mine in Takhar province. The purpose of the trip was for the Minister to show that MoM is actively engaged in managing the progress of existing mining contracts throughout Afghanistan, especially as they impact the residents of mining communities. For instance, in Takhar province a two-year old contract held by an Uzbek organization is behind schedule in their social obligations under the terms of the award. Community residents had grown frustrated as the social and economic benefits promised at contract inception that have yet to materialize. During his visit, the Minister addressed these concerns with residents of the local community and miners, speaking openly about the shortcomings of the current social situation at the mine.

The project also helped lobby for legal changes that would support development of the mining sector. These included amendments to the 2009 Minerals Law which would amend fixed royalty and corporate tax amounts, as well as "Right to Mine" conditions. These conditions allow licensees that are awarded an exploration license to apply for extraction permits without retendering a deposit if profitable resources are discovered; these conditions are key to attracting entrants to the Afghan mining sector, as it protects their upfront investment. These legal changes are key to the continued development of Afghanistan's mining sector, and the ability to attract outside investment and critical new revenue streams for GIRoA.

### Conclusions/Lessons Learned

The early termination of EGGI's mining sector assistance in December 2010 prevented most of the workstream's original objectives from being completed. However, the project successfully completed close-out activities prior to assistance end. The key lesson that emerged from the project's assistance to the MoM is that it is important for MoM to develop concrete strategies and the capacity to effectively manage media relations and press coverage. EGGI's participation in the Takhar gold mine visit, for instance, provided the opportunity for a first-hand observation of how MoM officials interface with the media and thus has helped to hone technical assistance in the critical areas of media relations and communications.

# Provincial Private Sector Development (de-scoped March 2011)

## Background

A primary objective of the EGGI project is to promote economic growth led by the private sector. Other USAID/OEG and donor programs complement the project's efforts in this regard, which build on a substantial range of activities conducted in the areas of private sector development, commercial legal and regulatory reform, tax administration reforms, and trade promotion. The value of these largely Kabul-based initiatives, however, has been more limited in generating results across the country. Through direct support to provincial level actors and by promoting focused attention at the center on key economic hubs, the EGGI project can positively influence the enabling environment for private sector growth. In Year 2, the project's provincial level work in the area of private sector development responded to these opportunities.

With the establishment of EGGI regional offices in Herat, Balkh, and Nangarhar during Year 1, regional teams engaged with a broad range of stakeholders to advance private sector development and strategic planning. This strategic planning process was the first of its kind for private sector development, using a systematic approach to overcome obstacles inhibiting private sector expansion and local economic development. Project support was channeled largely through the Private Sector Development Sectoral Committees (PSD-SC) of the Provincial Development Committees (PDCs). Through sustained PSD-SC engagement, the project promoted active, structured dialogue between public and private sector actors to address critical constraints to business operations, with follow-up work to unblock observed bottlenecks and improve administrative procedures related to business affairs. From improving access to finance issues, to assistance to streamlining business formalization steps, to producing locally generated Private Sector Development (PSD) strategies, EGGI efforts resulted in steady progress with regard to improving conditions for private sector investment, growth, and development.

The sector committees of the PDCs (6 in total) are established provincial structures, drawing authority from a PDC Guidelines document issued by the MoEC to operationalize this core pillar of the Afghanistan National Development Strategy. As such, the PSD-SCs represent an appropriate body through which the PSD workstream activities were coordinated and advanced. This approach was particularly valuable in promoting Afghanization, provincial level ownership and capacity of PSD reforms, and public-private sector collaboration in the course of issue identification, resolution, and local action.

During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, this particular workstream was de-scoped for the remainder of the contract year and the workstream was successfully wound down in accordance with the realigned priorities.

## Year 2 Results with USAID/EGGI Assistance

During Year 2, the project focused on advancing development of and implementation support for distinct Private Sector Development (PSD) Strategies in Herat, Balkh, and Nangarhar provinces.

## Balkh Finalizes Provincial Private Sector Strategic Plan and Begins Implementation

EGGI successfully supported the PSD-SC to finalize a PSD Strategy for Balkh province in September 2010. Following release of the Balkh strategy, project advisors continued extensive engagement with key stakeholders focused intently on promoting local ownership of strategy implementation, building broad awareness of the strategy and priority intervention areas, and capacity building of local directorates and agencies to execute against strategy objectives. Key outcomes resulting from these efforts included the appointment of five Strategic Goal Leaders (SGLs) and Project Leaders (PLs) with responsibility for planning and execution of goals identified in the PSD Strategic Plan.



Toward this end, EGGI/Balkh facilitated meetings with five SGLs to discuss their roles based on EGGI-drafted Terms of Reference (ToR). A key outcome of these discussions was agreement to establish "strategy implementation desks" within each of the SGL offices. These desks are to be staffed by the hosting organization and equipped with basic furniture and equipment. Once established, project advisors worked closely with SGLs to ensure activities identified in the PSD Strategy were executed.

The project also worked to obtain buy-in from the head MoCI office in Kabul, which was critical to ensure support for the PSD strategy. In the first quarter of Year 2, EGGI focused on advocacy efforts for more Head Office MOCI attention with respect to the PSD Strategy. Project advisors helped to establish formal linkages with the MoCI Private Sector Development Directorate to promote the Balkh PSD Strategy, as well as generate greater attention at the central level for authorities to respond to the various issues reported by business sector representatives captured in the multitude of consultations forums held with relevant stakeholders.

Through assistance to implementation of the PSD strategy, EGGI managed activities to maximize Afghan ownership of the PSD initiatives. To promote awareness and acceptance of the PSD Strategy, the project also worked with the Balkh Governor to release a formal letter officially endorsing the PSD Strategic Plan and encouraging support and resource contributions by government and non-government actors toward its fulfillment. With the closure of EGGI regional offices in March 2011, the project transitioned management and implementation of the PSD strategy to its counterparts.

*Continued on page 49*



## Provincial Private Sector Development (de-scoped March 2011)

Private Sector Development (PSD) workshop participants identify important issues critical to the PSD strategy implementation in Herat.



*Continued from page 48*

Prior to the end of the project's assistance, the EGGI/Balkh office assisted the Directorate of Economy to present the PSD Strategy to the full assembly of the Balkh PDC, chaired by the Governor. In addition to presenting the PSD strategy, challenges of implementation of the Strategy were discussed as well as potential solutions.

Project advisors also worked with the PSD-SC to identify alternative donor support for key priority projects to ensure these projects would continue. A support program for Mazar industrial parks was agreed to be submitted to other international donors, including Germany's GIZ for funding.

### EGGI Supports Herat PSD to Develop Implementation Plan for Existing PSD Strategy

In Herat, EGGI supported the PSD-SC to develop an "Implementation Plan" for their existing PSD Strategy. Project advisors coordinated with stakeholders to produce the first draft of the Implementation Plan in March 2011. This achievement followed workshops delivered in February 2011 devoted to identifying critical issues, strategic themes and objectives, key sectors for attention, and proposed interventions. The project assisted in analyzing and processing outcomes of this collaborative process, mainly in selection of interventions, proposed by Herat stakeholders, to address defined strategic objectives. Proposed interventions were then incorporated into a draft document.

In February, the project held a workshop to formally launch the development of the implementation strategy for Herat's PSD strategic plan. To better tailor the plan to Herat's unique business environment, advisor supported the PSD-SC to execute a Business Survey to solicit inputs from stakeholders. Feedback from the survey was used in crafting a final draft implementation plan in March 2011. Prior to the end of EGGI assistance, advisors worked closely with the PSD-SC to secure firm commitments from government and non-government actors to execute the strategy.

The EGGI/Herat office worked to advance private sector development on several other fronts as well. In the first quarter, advisors supported the PSD-SC conduct a series of meetings with the new leadership of the Herat Industrial Union (HIU). Discussions focused on ways in which the PSD-SC could assist the HIU in increasing their services and positive impact on industrial operations in Herat. Given the potential for HIU expansion, job creation, and increased business output, the PSD-SC views HIU support as critical.

In another PSD-SC victory, Herat's Governor formally presented an officially registered title deed to the president of Super Cola Co, the largest business in Herat Industrial Park. This was the first of hundreds of businesses in the HIP that will receive a registered title deed

recognized by the commercial courts. Previously, land titling was not recognized by the commercial courts, imposing a serious constraint on businesses and rendering ineligible land values held by businesses for collateral in secured transactions. With the passage of the secured transactions law, EGGI deemed this effort of high value which would hopefully lead the way to increased levels of access to finance to the business community.

### Jalalabad PSC Commences PSD Strategic Planning

The EGGI/Jalalabad office also supported that PSD-SC on a range of private sector development efforts. In July 2010, the project supported the PSD-SC to develop an Economic Profile for Nangarhar province. This deliverable was used to drive and prioritize PSD efforts within the province. In October 2010, the project supported the opening of the MoCI's first regional offices in Mazar and Nangarhar provinces. These offices serve as hub centers for business formalization services and private sector development planning. Key directorates housed at the new facility include ACBR, Licensing Directorate, and the export promotion agency.

On the PSD Strategy work, EGGI/Jalalabad commenced the strategic planning workshop in November in cooperation with the EGGI/Balkh team. Working through the PSD-SC, chaired by the Economy Directorate, advisors delivered a presentation on the planning process, key activities and their sequencing, and worked to secure stakeholder participation for active involvement in the production process. Following the PSD Strategy planning workshop in November, the project continued advancing the process through extensive follow-up discussions with key stakeholders. Preparations for executing a Business Survey began to solicit inputs from stakeholders on a wide-variety of development topics. The survey, launched in late December, formed an important input source for Nangarhar's production of a PSD Strategy.

### Conclusions/Lessons Learned

The project coordinated closely with PSD-SC representatives to ensure a smooth completion of project activities following "de-scoping.". However, capacity and funding challenges meant that much of this work was in jeopardy. Continued focus on building local ownership and execution capacity is critical. Also, promoting awareness and developing outreach strategies to ensure stakeholders remain committed to delivering on key activities identified in all provinces to advance private sector development is of the utmost importance. As EGGI completed its work in March 2011, donor funding for many priority projects was still not determined. Without donor support and some level of direct technical assistance, progress made in provincial private sector strategic planning could stall moving into the future. Finally, it will be imperative for provincial PSD-SCs to coordinate closely with the MoCI in Kabul. This is of particular importance as it relates to the initiative to improve Afghanistan's ranking in the World Bank's Doing Business report.



Herat Governor Daud Saba presents the first registered Land Title Deed to the President of Super Cola, the largest company in the HIP. Resolution of the land titling issue is an example of an Afghan-led success, supported by EGGI.

# EGGI Grants Program (de-scoped March 2011)

## Background

The EGGI Grants Program was introduced in August 2010 as one of the mechanisms that would be used to support program objectives. Through grants awarded under the contract, the project was slated to provide funds to Afghan and international organizations who demonstrate potential to contribute to EGGI's impact in Afghanistan. Although this activity was "de-scoped" in the second quarter due to changing project priorities, advisors completed development of several key deliverables that can be used as a guide should this activity be restarted. Developed materials focused on implementation of the EGGI Grants Program from a technical and programmatic perspective in preparation for advertising the first round of grant awards. Implementation of the grants program included the development of technical grants management documents such as the EGGI Grants Program Playbook for Grants under Contract, and the Annual Program Statement (APS). The Grants Playbook was designed to provide a play-by-play overview of the required management processes, and templates required for both recipients of grants and the grants management team. The APS was developed as the mechanism through which to solicit concept papers from eligible grant applicants for EGGI funding opportunities.

It should be noted that the EGGI Grants Manual was held up in a legal review process by the contractor's Federal Contracts Group and was not expected to be resolved within Year 1. In order to push forward with the program, USAID's Contracting Representative, provided guidance in July 2010, with respect to alternative documentation to be submitted while the Grants Manual completed legal review. The alternative documentation, otherwise referred to as the 'EGGI Playbook for Grants under Contract'- detailing the EGGI processes and procedures for implementation of a 'grants under contract' program - was reflected in the original Year 2 Workplan developed in August 2010.

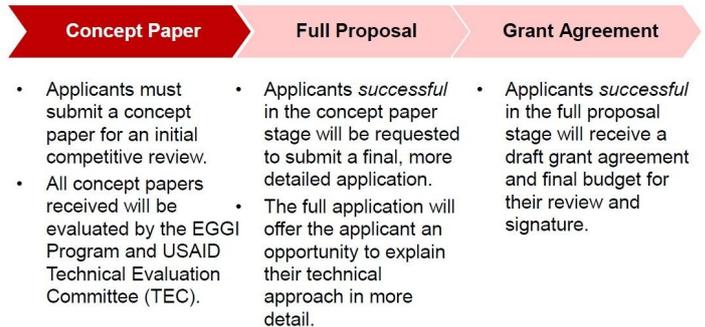
## Year 2 Results with USAID/EGGI Assistance

In October 2010, EGGI prepared for the official launch of the EGGI Grants Program with the **delivery of the Annual Program Statement (APS)** and EGGI Grants Program Playbook for Grants under Contract to USAID. Due to changing priorities, the Grants program was "de-scoped." in Q2. The 'EGGI Playbook for Grants under Contract' was submitted by the indicated deadline per the original Year 2 WBS and can be used for implementation of a future program if desired. The project intended to use the APS as a mechanism to solicit concept papers for results-based program activities that support project goals and objectives including cross-cutting initiatives (gender mainstreaming, youth engagement, support for disadvantaged populations) as well as improved economic governance and private sector-led economic growth.. The EGGI Grants Playbook included an overview of the processes and templates required for applying (shown at right), eligibility criteria, reporting requirements, process and format for applying for a grant, criteria for evaluating grants and other requirements for managing grants funded under the project. Although the program was canceled, deliverables created will offer value to potential future grants management efforts.



Ms. Feba Majid, Director of Women's Affairs in Balkh province, addresses participants at a women's business association roundtable in Mazar.

To help drive development of the grants program, information was collected through meetings with counterpart and local organizations. The Grants Management Advisor met with over **30 organizations from Kabul, Mazar, and Jalalabad** to learn about their program activities in order to mitigate duplication of efforts, identify niche local needs, and obtain lessons learned from existing grants programs. Through these meetings the advisor established a network of organizations to serve as a multiplier network in order to advertise EGGI grants with potential grantees. Furthermore, the advisor met with local Afghan NGOs and private companies who were identified as potential candidates for implementing program activities that fell under the EGGI Grants Program strategy.



In December 2010, EGGI's Grants and Gender Mainstreaming Teams facilitated an **Afghan Women's Business Association Roundtable event in Mazar**. The event was a forum for providing a preview of the EGGI Grants Program to potential grant applicants, and for project advisors to better understand the local context within which these programs operate to determine some of the most acute economic growth and private sector development challenges facing women-owned business.

## Conclusions/Lessons Learned

EGGI's Grants Program was not advertised to the public for grant applications due to budget alignment changes that resulted in the elimination of the EGGI Grants Program. However, valuable lessons were learned that can help guide future grants efforts. Public outreach and advertisement of grants opportunities via the APS and Requests for Applications (RFAs) are critical to the success of a grants program. EGGI shifted focus slightly to pursue the RFA approach in the second quarter to expedite the grant application and award process. Utilizing RFAs allows for the disbursements of certain types of grants more quickly. Public outreach and education is critical to ensuring that organizations who wish to apply for grants are familiar with the process. Often times, groups who are most in need of grants are the least likely to know about opportunities of have the capacity to respond. To overcome this challenge, EGGI held roundtables in the provinces and designed an aggressive awareness campaign intended to teach organizations how to apply and navigate the process.



EGGI's Grants Management Advisor, Jennifer Whitehead, discusses potential grant opportunities with a female business owner in Mazar. EGGI held roundtable events with women's business associations to introduce the EGGI Grants Program and discuss activities with Afghan aid organizations.

# EGGI Operations in Regional Economic Hubs

## Summary of Year 2 Activities in Herat, Balkh, and Nangarhar

*In Year 2, EGGI regional teams deepened and expanded the range of assistance areas to target counterparts to advance economic reform initiatives at the provincial and regional level. The project's operations in regional economic hubs align closely with USG policy goals to increase development efforts at the local level. EGGI focused support in Year 2 through its offices in the provinces of Herat (Herat City), Balkh (Mazar-e-Sharif), and Nangarhar (Jalalabad), providing substantial expertise in each location built around component workstreams. EGGI activities extended execution of core assistance areas in provincial budgeting, tax administration, core central bank functions, private sector development, and gender programming.*

*During the Spring of 2011, the EGGI project went through a realignment of priorities exercise with many of the individual workstreams that were part of the WBS at the beginning of Year 2. As a result, regional offices were closed for the remainder of the contract year and activities successfully wound down in accordance with the realigned priorities. However, plans to conduct provincial work through Kabul-based workstream advisors supported by a contingent of national staff embedded in provincial counterpart offices still yielded good results in provincial budgeting, tax administration, and ACBR support. Financial sector strengthening, economic data and collection efforts, and broad private sector development activities, however, were terminated, preventing more progress than originally planned.*

Driving Central Government Initiatives to the provincial level was a first tier pillar of EGGI's regional workplan established from the outset of Year 2. In formulating component-based assistance areas and target counterparts to support, consensus was reached to focus efforts at the provincial offices of the Ministry of Finance (Mustofiat), DAB Zone Offices, and ACBR offices, all three of which represented core partners in advancing economic growth and governance objectives. In the area of private sector development, the project established firm partnerships with the Private Sector Development Sectoral Committees (PSD-SCs). Through support to the PSD-SCs, relationships were also established with the Directorates of Economy,

and Commerce and Industries; the Afghanistan Investment Support Agency (AISA); and a broad range of business, trade, and industrial organizations. Collectively, this approach to regional operations supported big picture themes incorporated into EGGI program objectives. Highlights of this include strengthening overall public treasury management, generating regional economic data and information for DAB, promoting deliberation on and support for provincial level economic governance functions, and improving donor coordination.

### Enhanced Public Treasury Management

Through targeted efforts in tax administration, revenue management, and provincial budgeting, the project assisted GIRoA to make marked progress toward fiscal sustainability, enhance public financial management, and improve fiscal performance data generation and exchange, not only in Kabul but also at the subnational level. EGGI placed strong emphasis in Year 2 on aligning distinct component support areas with these big-picture themes, building into the process a deeper understanding by provincial authorities and counterpart staff of the linkages between these workstream activities and broader public financial management goals.

With regard to revenue generation, the project's support to Medium Taxpayer Offices (MTOs) in Herat and Balkh provinces were decisively advanced and preparations for commencing Nangarhar MTO operations moved forward, albeit slowly. In Herat, where project support has been ongoing since January 2010, data show sustained trends in collection and filing compliance – two core outcome indicators of assistance.

Installation of the Revenue Reconciliation Database (RRD) also contributed to enhanced public financial management. In Year 2, the project completed installation of the RRD in all 34 provinces enabling the MoF to gain immedi-

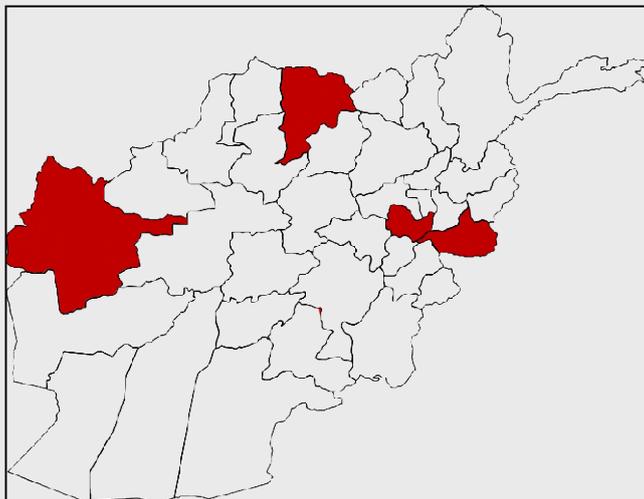
ate access to daily revenue collections throughout the country. Training was conducted in RRD operations for 164 GIRoA employees, who demonstrated increased competency and efficiency in processing revenue collections through the RRD system. The project also promoted close cooperation between provincial RRD staff and DAB provincial branches, ensuring the provision of timely revenue transaction records, and continuity between account statements and corresponding RRD postings.

Under the MoF's new provincial budgeting initiative, the project committed to establish five regional training hubs in Herat, Mazar, Nangarhar, Kandahar, and Helmand with the aim of ensuring that provincial priorities are better reflected in Afghanistan's national budget. Additionally, the hubs serve as a base of operations from which to coordinate and deliver budget development and execution training to provincial officials, consistent with the MoF's national plan for improving this function. During Year 2, the project supported the MoF to hire eight provincial budgeting officers to staff the hub locations. The officers provided critical technical and logistical support to the MoF to officially launch Budget Circular 1 (BC-1) training for the provincial departments of the four line ministries and IDLG selected to participate in the pilot program. The project held formal provincial budgeting workshops for over 700 provincial officers from 23 provinces. In these trainings, EGGI and MoF communicated core messages around GIRoA attempts to channel development resources through GIRoA budget systems. In doing so, EGGI and MoF sought to increase the understanding of and confidence in the evolving approach to strengthening GIRoA budget development, allocation, and execution processes.

### Access to Regional Economic Data

In Year 1, EGGI supported DAB to develop the Survey of Regional Economic Activity (SREA) and conduct the first survey in Kabul. The SREA responded to DAB's need to secure a better supply of regional economic data. Through the SREA, data is collected through DAB's Zone Offices, analyzed and consolidated into a report for the Monetary Policy Department (MPD) in Kabul to better inform monetary policy decision-making.

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# EGGI Operations in Regional Economic Hubs

## Summary of Year 2 Activities in Herat, Balkh, and Nangarhar



Over 70 officials from Nangarhar line directorates met to update the province's Provincial Development Plan (PDP), which had not been revised since 2007

*Continued from page 51*

In Year 2, the SREA was launched in Herat and Jalalabad and associated reports were produced that provided valuable information on the economic climate in the West and East regions. SREA reports, all publicly available through the DAB website, offer leading indicators and analysis on economic trends and conditions. Beyond the SREA, EGGI supported the DAB MPD to build and introduce a more structured approach to the collection, organization, and reporting of regional economic data and information. Identifying the sources and types of information available was the first step in this process; in support, project advisors assisted the MPD and zone economists to establish relationships with the provincial offices of the Central Statistics Office, revenue and customs authorities, ACBR, AISA, and other provincial offices.

### Improved Economic Governance

With well-established relationships in place with key economic directorates, agencies, and business organizations in Herat, Balkh, and Nangarhar provinces, EGGI efforts included technical support to build better structure, accountability, and effectiveness around the economic governance themes described in preceding sections. Efforts in this regard aimed at strengthening operations of inter-governmental structures such as the various sectoral committees established through the Afghanistan National Development Strategy (ANDS). The EGGI project, in partnership with core GIRoA counterparts, coordinated regular meetings and stakeholder events to generate inputs into the strategic agenda to improve provincial governance aimed to promote investment into the regions. Over the two years of project support, the project has provided assistance in the areas of strategic planning, policy development, investment

promotion, economic data collection, operational streamlining, organizational restructuring, revenue collection and budgeting, among other reforms to promote sound economic governance and private sector development.

### Stronger Donor Coordination

To improve the reach and quality of international development and assistance programs, EGGI worked extensively with

other USAID programs, Provincial Reconstruction Teams (PRTs), and other international donor agencies (including German and Italian organizations) to ensure better coordination of efforts on the ground. In provincial budgeting for example, the project led efforts to inform donor stakeholders about the provincial budgeting pilot. In November 2010, the project led a briefing for 30 officials from the Herat PRT, USAID, and other implementing partners on the MoF's provincial budgeting initiative. Stakeholders often turned to project advisors for information on the provincial budget effort as EGGI was the champion of this effort and implementation at the provincial level. Similar examples of donor engagement include EGGI's work with PSD-SCs, provincial MTO offices, and DAB zone offices, all of which aimed to improve the level of interaction and coordination of provincial level economic growth and governance support.



DAB's East Region Director addresses workshop participants on SREA methodology, emphasizing the value of collecting regional economic data to better inform monetary policy deliberations at the MPD in Kabul.

# EGGI/Balkh Regional Overview

## Summary of Year 2 Activities in Mazar-e-Sharif

The city of Mazar-e-Sharif in Balkh province is the core economic hub in northern Afghanistan. Key economic activities in the region include cross-border trade with Tajikistan and Uzbekistan; agricultural production of cotton, sesame, tobacco, and olives; and some light industry including carpet production. Relative stability and security in the region have contributed to improved economic growth, but province-wide access to infrastructure, education, and health services remains low.

The EGGI project opened the Balkh office in January 2010, following a model of consulting with local counterparts and building relationships to help identify focus intervention areas. Building on Year 1 successes, EGGI concentrated Year 2 activities on developing and executing a regional Private Sector Development (PSD) strategy, strengthening tax administration and operations at the MTO, commencing provincial budgeting activities, and initiating the EGGI Women in Government program.

### Strong Revenue Results from the MTO

As noted in the Tax Administration workstream, the Mazar MTO continued to develop technically throughout Year 2 with the project's support, manifesting in strong revenue collections and tax returns filed. Through the end of Afghan FY1389 (March 2011), the Mazar MTO's total revenue collections were 127.5 million AFN, more than double the 60 million AFN goal. Revenue collections in the six-month period of Apr-Sept 2011 increased over the same period in 2010 by 341%, demonstrating continued improvement in tax administration. The MTO also received 3,638 filed tax returns over the project's Year 2, exceeding the target of 2,300 by 58%. These results demonstrated higher taxpayer filing compliance, showing the benefi-



cial effect of targeted taxpayer education efforts and the overall development of the MTO's capacity.

### Support for Provincial Budget Activities

The project further helped improve public financial management processes in Balkh through targeted provincial budgeting initiatives. In December 2010, EGGI supported the MoF's Provincial Budgeting Unit (PBU) to execute a four-day intensive budget training program in Mazar for 78 officials from various northern provinces. The project then continued working with the MoF to conduct workshops on costing and preparing justifications for priority development projects, and provincial budgeting officers in Mazar assisted the provincial line directorates to prepare budget circular forms for the MoF. Over the year, support from the project helped to develop the capacity of Balkh and other northern provinces to conduct budgeting activities, and to create strong priority project proposals that can improve infrastructure and access to services in the region.

### Initiation of Private Sector Development (PSD) Planning Efforts

The EGGI/Balkh office began Year 2 by assisting the PSD-SC in the release of the Balkh PSD Strategic Plan, which serves as the private sector component of the overall Provincial Development Plan. The plan is a means for unifying stakeholders from the provincial

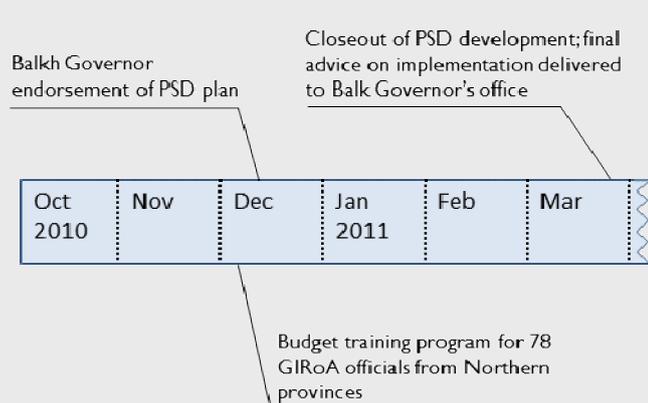
government, GIROA, the donor community, and the private sector around a clear strategy to improve the business enabling environment and promote investment to develop the local economy. The project also helped the Directorate of Economy and the PSD-SC to socialize and present to key stakeholders. In December 2010, the Balkh Governor officially endorsed the PSD plan. The PSD strategic plan was a clear success and received strong positive feedback from donors and private sector representatives. This success led to implementation of similar strategic planning processes in close coordination with the PSD-SCs in Herat and Nangarhar provinces.

Later activities in 2011 focused on steps to achieve specific goals of the PSD strategic plan, such as organizing discussions on a Free Market Zone project and presenting briefs to the Balkh Provincial Council on proposed Afghan Strategic Goal Leaders. Advisors' work helped to inform the policy-making process on PSD and empower Afghan stakeholders to lead efforts to implement the PSD strategic plan. As the EGGI/Balkh office prepared to close in March, the workstream closed out PSD assistance by meeting with Strategic Goal Leaders and presenting final advice to the Balkh Governor's office on how to proceed with implementing the strategy. Finally, EGGI prepared a "Private Sector Development Tool Kit" to enable stakeholder organizations to continue taking the PSD effort forward, ensuring Afghan ownership of the effort into the future.

### Kick-off of WIG program

The project's Women in Government (WIG) internship program began steps to establish the program in Mazar, recruiting ten interns as the inaugural class and holding a kick-off meeting in December 2010. However, the Mazar program was never able to begin activities, as the program was cut shortly after during the project's "right-sizing."

## EGGI/Balkh Key Events During Year 2:



# EGGI/Herat Regional Overview

## Summary of Year 2 Activities in Herat

**Herat province is the core of economic activity and trade in western Afghanistan, with the capital city serving as the province's urban focal point. Over 30% of Afghanistan's total trade activity flows through Herat towns on the border of Iran and Turkmenistan via a well-developed transportation infrastructure. Key economic activities include trade; agricultural production of cotton, tobacco, and sesame; and small industry including silk and carpet production.**



**Given the favorable economic conditions in Herat, the project established the Herat office for operations in the province in October 2009. In the course of Year 1 the project helped to: establish the Herat MTO; open the first provincial ACBR office; advance the enabling environment for private sector growth by supporting the PSD-SC to build better structure, accountability, and effectiveness; and guide the DAB/West Zone office to develop its monetary policy functions. In Year 2, EGGI assistance focused on continuing development of the MTO, launching provincial budgeting, collecting economic data for the DAB West Zone office, and developing an implementation plan for Herat's PSD strategy.**

### Continued MTO Development

The project's tax administration assistance in Herat focused on furthering development of the Herat MTO, which continued to grow, exceeding revenue and tax filings targets. Through the end of Afghan FY1389 (March 2011), the MTO's total revenue collections were 149.6 million AFN, far exceeding the 100 million AFN goal. In the first half of FY1390, (Mar-Sep 2011) the MTO collected another 150.5 million AFN, reaching 70% of the MTO's annual target of 215 million AFN. The MTO also exceeded targets for numbers of tax returns filed, achieving 3,807 total filings over the project's Year 2 and increasing Q4 returns by a

34% over the same period in 2010. As with the Mazar MTO, results were gained primarily thanks to higher taxpayer compliance as a result of targeted taxpayer education, and increased revenues from withholding tax collection. As a result, the Herat Mustofiat held a ceremony in February 2011 recognizing the MTO's strong performance exceeding targets.

### Support for Provincial Budget Activities

In provincial budgeting, core project activities centered around "test workshops" held in Herat in June 2011. The workshops allowed Herat provincial officials to provide feedback on MoF budget circular forms before they were rolled out to provincial directorates in July, helping to cater the forms properly to regional contexts. Provincial budgeting advisors then supported the MoF to conduct two provincial budgeting workshops for five Western provinces in Herat on Sept 20-22, and helped provincial line directorates to prepare budget circular forms for developing project proposals. The full breadth of these activities enabled Herat and its surrounding provinces to prepare better proposals for the national budget process that can continue to improve Herat's infrastructure and services.

### Collection and Analysis of DAB Zone Branch data

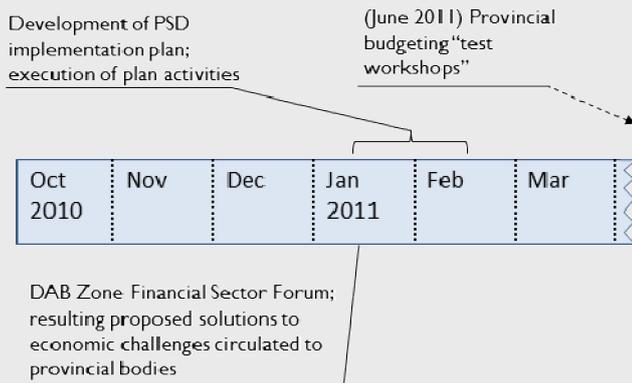
In Year 2 the Herat regional office also continued advancing the work of the DAB's West Zone economist to achieve better regional economic data for Herat and surrounding

provinces. In November 2010, EGGI assisted the DAB zone economist to conduct the Survey of Regional Economic Activity (SREA), analyze subsequent results, and draft a corresponding report. In January 2011, the project then supported the second DAB Zone Financial Sector Forum (FSF) to bring together representatives of the financial sector in Afghanistan's West region to discuss key economic and financial sector development challenges. This particular forum addressed cash management and note distribution issues, resulting in a variety of proposed solutions then circulated to provincial bodies.

### Development of an Implementation Plan for Herat's PSD Strategy

Continuing support to Herat's growing private sector, the regional office worked to develop an implementation plan for Herat's existing but unused PSD strategy. In December 2010, advisors assisted the PSD Sectoral Committee (PSD-SC) to launch production of an implementation plan for private sector development, which sets a more detailed, locally-driven agenda to advance the broad objectives in the PSD strategy. Plan activities began to take shape in January-February 2011, including facilitation of the PSD-SC's relationship with the Herat Industrial Union to gain feedback and contributions on potential PSD initiatives. The project also helped put on a two-day workshop for developing the actual PSD implementation plan. Prior to closing in March 2011, the EGGI/Herat office coordinated with stakeholders to produce a final draft of the PSD implementation plan and turn over its further development to the Herat PSD-SC Chairman. The result of these efforts was to catalyze PSD stakeholders in Herat around a singular implementation plan, and set clear steps for executing the goals in the PSD strategy. As the plan and associated strategy gain traction, they will serve to more effectively coordinate actions to promote further private sector development in the region.

## EGGI/Herat Key Events During Year 2:



EGGI's Jawad Habibi speaks to members of the Herat Industrial Union (HIU) on the project's efforts to assist the Herat PSD-SC in addressing private sector growth constraints to members

# EGGI/Nangarhar Overview

## Summary of Year 2 Activities in Jalalabad

*Like Herat, Nangarhar province experiences significant economic activity related to trade, owing to its position bordering Pakistan. The province is predominantly rural, but has strong transportation infrastructure flowing into Pakistan and around the capital Jalalabad. Key economic activities include trade; agricultural production of cotton and sugar; and small handicraft production.*

*The EGGI project established the Nangarhar office in Jalalabad in February 2010. For the rest of Year 1, the project helped to establish provincial budgeting processes and develop the DAB East Zone office. In Year 2, the project focused on providing technical provincial budgeting support, supporting the DAB East Zone economist, initiating the Private Sector Development (PSD) strategy, and assisting the new Jalalabad MTO to establish operations.*

### Support for Provincial Budgeting Activities

In September 2010, the project supported the MoF to hold a two-day provincial budgeting workshop in Jalalabad for four East Region provinces. The workshop introduced the MoF's provincial action plan and helped improve communications between the MoF, line ministries, and provincial officials. It was the first time government officials of each East Region province had convened to learn about the pilot for the 1390 budget process.

Following the workshop, the project's provincial budgeting officers and the MoF held technical provincial budgeting trainings in November 2010 for 17 Nangarhar provincial directorates, providing closer guidance on preparing budget estimates for line ministry consideration. The regional office continued to provide support into 2011, convening a meeting with over 70 Nangarhar provincial line directorate representatives to update



the province's outdated 2007 Provincial Development Plan (PDP). The meeting helped solidify coordination between line directorates and the Governor's office, and isolate key development priorities across districts to be addressed by projects in a new PDP.

In June 2011, provincial budgeting training continued as advisors held briefings for 25 officials from all five pilot line directorates, assisting completion of BC-1 forms. The project also participated in Provincial Development Committee (PDC) meetings, briefing participants on the new MoF policy approach under which provincial directorates can submit BC-1's for two potential development projects up to \$500,000 that align with National Priority Programs. Finally, in September 2011 the project completed the process by assisting Nangarhar pilot provincial directorates to complete project activity proposals for their line ministry and MoF's review. As a result of the project's assistance, Nangarhar provincial directorates were able to move through the entire budgeting process from identifying potential projects, to estimating budgets, to completing BC-1's.

### Collection and Analysis of DAB Zone Branch data

In November 2010, the project supported the DAB East Zone office to conduct a workshop launching the Survey on Regional Economic Activity (SREA), the first time the

survey had been conducted in the East region. After results were collected, project advisors and the DAB Monetary Policy Department (MPD) Director General held a workshop for regional DAB staff in Jalalabad to analyze survey data and draft the SREA report. As a result of the workshop, an inaugural Jalalabad SREA report was completed and presented to the DAB Zone Director.

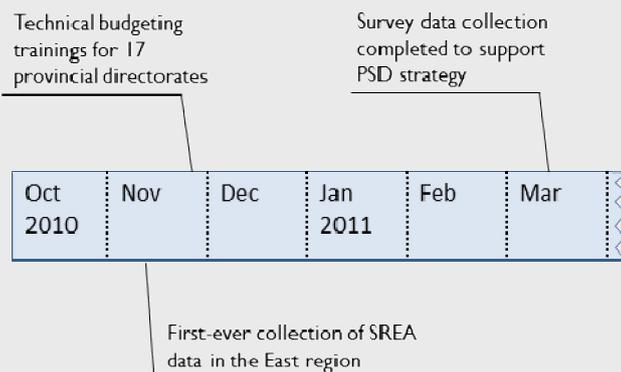
### Development of PSD Strategy

Through the first half of Year 2, the regional office helped to develop a Nangarhar PSD strategy. The process began in December 2010, when the project facilitated a special PSD Sectoral Committee (PSD-SC) meeting to launch the first phase of the strategy process, conducting a survey on the business environment and local constraints on economic activity. The survey was distributed to over 70 local entrepreneurs, and data collection finished in March 2011. Project advisors then helped to draft the Business Survey Results Report and present it to members of the PSD-SC. The report provided a strong base of information from which policymakers in Nangarhar can identify the most critical areas for a PSD strategy. The regional office closed in March 2011 without a full strategic plan being produced by the PSD-SC, but during its operation the office helped create a strong foundation for further PSD work.

### Establishment of MTO

Finally, the project helped establish a new MTO in Jalalabad in February 2011; however, the MTO's development has been severely limited by security-related challenges. Because project advisors were not able to complete training or work on the ground in Jalalabad, technical assistance could not be adequately delivered and robust oversight was precluded. While still an underdeveloped institution, the MTO was able to collect 430,000 AFN of revenue in Q4, indicating tentative progress that the project will look to foster in Year 3.

## EGGI/Nangarhar Key Events During Year 2:



An EGGI/Nangarhar provincial budgeting officer facilitates a breakout session on preparing budget estimates for a group of East region budget officials. The goal of the sessions was to increase coordinate between provincial directors and line ministries and improve provincial input to the national budget.

## Acronym List

ACBR	Afghanistan Central Business Registry
ACSS	Afghanistan Clearing and Settlement System
AFMIS	Afghanistan Financial Management Information System
AfTel	Afghan Telecom
AFTS	Afghanistan Funds Transfer System
AG	Auditor General
AISA	Afghanistan Investment Support Agency
ALCO	Asset-Liability Management Committee (DAB)
ALM	Asset-Liability Management (DAB)
ANDS	Afghanistan National Development Strategy
APS	Annual Program Statement (Grants)
ARD	Afghanistan Revenue Department
ARTF	Afghanistan Reconstruction Trust Fund
ASPIRE	Afghanistan Strategy for Prosperity, Infrastructure and Regional Engagement
ATRA	Afghan Telecom Regulatory Authority
BC	Budget Circular
CAO	Control and Audit Office
CBS	Core Banking System
DAB	Da Afghanistan Bank (Central Bank)
DBBI	Doing Business Better Initiative
DFPK	Telecom Dim Fiber-Pakistan
DG	Director General
DM	Deputy Minister
ECF	Extended Credit Facility (IMF)
EGGI	Economic Growth & Governance Initiative
EQUIP	Education Quality Improvement Program (World Bank)
FPP	Financial Program Planning
FPU	Fiscal Policy Unit (Ministry of Finance)
FXD	Foreign Exchange Dealer
FSD	Financial Sector Development
FSD (2)	Financial Supervision Department (DAB)
FSF	Financial Sector Forum (DAB)
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GIRoA	Government of Islamic Republic of Afghanistan
HIU	Herat Industrial Union
ICT	Information and Communications Technology
IDLG	Independent Directorate for Local Governance
IMF	International Monetary Fund
ISAF	International Security Assistance Force
IPD	Investment Promotion Department (Ministry of Mines)
IR	Intermediate Result
IPS	Inter-bank Payments System
ISP	Internet Service Provider
LIBA	Law of Islamic Banking in Afghanistan
LOE	Level of Effort
LLC	Limited Liability Company
LTO	Large Taxpayer Office
MAIL	Ministry of Agriculture, Irrigation, and Livestock
MNP	Mobile Number Portability
MOC	Ministry of Communications (Turkmenistan)
MOD	Market Operations Department (DAB)

## Acronym List, continued

MoEC	Ministry of Economy
MoED	Ministry of Education
MoCI	Ministry of Commerce and Industry
MCIT	Ministry of Communication and Information Technology
MoED	Ministry of Education
MoEC	Ministry of Economy
MoF	Ministry of Finance
MoI	Ministry of Interior
MoM	Ministry of Mines
MoPH	Ministry of Public Health
MOU	Memorandum of Understanding
MPD	Monetary Policy Department (Central Bank)
MRRD	Ministry of Rural Rehabilitation and Development
MSP	Money Service Provider
MTO	Medium Taxpayer Office
MTEF	Medium-term Expenditure Framework
MTFF	Medium Term Fiscal Forecast
NPC	National Payments Council
OFC	Optic Fiber Cable
PBU	Provincial Budgeting Unit
PDC	Provincial Development Committee
PDP	Provincial Development Planning
PRT	Provincial Reconstruction Team
PIP	Public Investment Program (Development budget)
PL	Project Leaders
PMP	Performance Monitoring Plan
PSD	Private Sector Development
PSD-SC	Private Sector Development Sectoral Committees
RFA	Request for Applications
RFP	Request for Proposal
RRD	Revenue Reconciliation Database
SGL	Strategic Goal Leaders (Private Sector Development)
SME	Small and Medium sized Enterprises
SREA	Survey of Regional Economic Activity
STA	Special Temporary Authorization (Telecom)
SY	Solar Year (Islamic calendar)
TDF	Telecom Development Fund (ATRA)
TIN	Tax Identification Number
ToR	Terms of Reference
US	United States
USAID	United States Agency for International Development
USG	United States Government
VAT	Value-added Tax
WB	World Bank
WIG	Women in Government (internship program)
WiMAX	Worldwide Interoperability of Microwave Access
WG	Working Group



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*The Economic Growth & Governance Initiative (EGGI) is a program led by the U.S. Agency for International Development (USAID) to help Afghanistan create favorable frameworks that promote economic growth and governance. EGGI is comprised of a diverse team of economists, finance specialists, development experts and sector specialists who work alongside government officials, providing technical assistance and trainings on a daily basis.*