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Economic Growth & Governance Initiative

Annual Report

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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 capacity of the Government of the Islamic Republic of Afghanistan (GIROA) to develop and sustain a market environment that supports responsible economic management and fiscal sustainability in the lead up to the 2014 transition. The project's efforts to promote sound public financial management should build a strong platform to encourage private sector-driven growth, investment promotion, and job creation.

In partnership with GIROA, the project's Afghan and expatriate advisors work with the Ministry of Finance (MoF), the Afghanistan Revenue Department (ARD), key line ministries, and various government agencies to provide technical assistance that facilitates sustainable and transparent policy and decision making. Project assistance focuses on several core aspects of public financial management and delivers key policy support to MoF decision makers in fiscal management and revenue generation. In its third contract year, the project delivered broad-based technical assistance across seven workstreams, supporting key reforms and activities in public financial management, program and provincial budgeting, tax policy, tax administration, fiscal policy, and gender empowerment. Throughout the year, the project's Afghan and expatriate advisors delivered high-impact assistance that continued progress toward the project's core objectives and further developed the capacity of GIROA counterparts.

Notable Achievements During Year 3:

In Year 3, the project worked directly with GIROA to provide technical assistance and implement reforms to support the project's overarching vision. Advisors also provided training and on-the-job assistance to enable GIROA counterparts to continue reforms facilitated by project assistance. Some of the project's key achievements in Year 3 (October 1, 2011—September 30, 2012) include:

- Provided 8,560 person-days of training for key GIROA personnel in fiscal policy and financial administration.
- Supported 38 budgetary units to complete and submit their FY 1391 and FY 1392 annual budgets on time to the Budget Committee and defend their budgets during budget negotiations.
- Completed a comprehensive capacity assessment in 46 line ministries with specific recommendations to improve capacity.
- Contributed to the increased development budget execution, which reached 52% in FY 1390 from 39% in FY 1389 through supporting budgetary units in the implementation of procurement and financial planning.
- Supported MoF to roll out a comprehensive provincial budgeting training program for all 34 provinces, enabling 88% of certain provincial directorates to complete first round budget submissions on time and 98% to complete second round forms on time.
- Graduated 133 women from the Women in Government Internship Program and helped 83% of graduates find full-time jobs.
- Expanded the Women in Government Internship Program at the provincial level, officially launching the program in Balkh and Herat provinces.
- Provided technical support to MoF's Non-Tax Revenue (NTR) Directorate to implement a practical examination fee for the issuance of driver's licenses. This is a new revenue stream for the Kabul Traffic Department that could result in increased collections of 10-15 million AFN annually.
- Supported development of Medium Taxpayer Offices (MTOs) in Herat, Mazar, Jalalabad, and Kandahar, assisting Herat, Mazar, and Jalalabad to surpass FY 1390 revenue collection targets ahead of schedule and improve tax return filing compliance by an average of 20%.

Overview of the Year 3 Workplan

In Year 3, the project was organized into a workstream-based structure, with each workstream delivering technical support to a specific GIRoA counterpart or program. While the project historically delivered technical assistance across the three components of Economic Policy, Financial Sector Development, and Private Sector Development, project activities in Year 3 focused on fiscal sustainability, public financial management, and gender empowerment. Although the project structure and scope had changed, the project maintained key staff and leadership in Year 3 to ensure continuity with the progress made in previous years, enabling the project to build on earlier successes.

Following the structure of the Year 3 Workplan, the project's technical support in Year 3 mapped to the Intermediate Results (IRs) shown below, which are part of the USAID mission Performance Monitoring Plan (PMP) in Afghanistan.

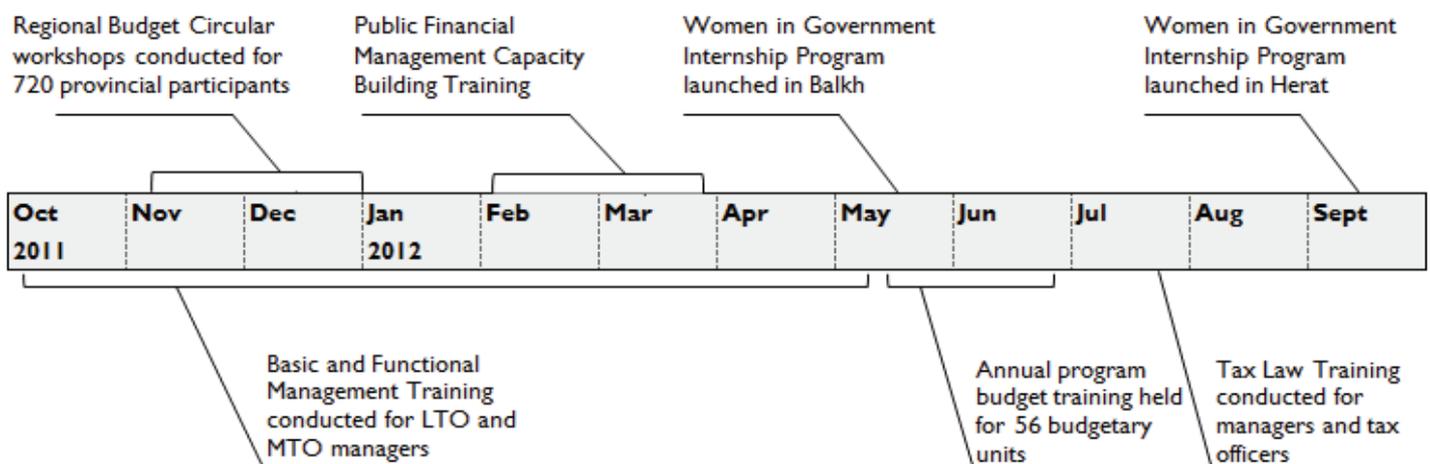


The project delivered technical assistance across seven workstreams in Year 3:

- Workstream 1: Fiscal Policy (de-scoped in February 2012 at the request of USAID)
- Workstream 2: Tax Policy/Non-Tax Revenue
- Workstream 3: Program Budgeting
- Workstream 4: Provincial Budgeting
- Workstream 5: Tax Administration
- Workstream 6: Revenue Reconciliation Database
- Workstream 7: Women in Government

The following sections provide an overview of the key results and lessons learned for each workstream during Year 3.

Timeline of Key Events for Year 3:



Workstream I: Fiscal Policy (de-scoped February 2012)

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Fiscal Policy: Year in Review

Background

Robust analysis of spending and revenue collection decisions is important to inform fiscal policy decisions, promote sound fiscal management, and establish a solid foundation for improving economic governance. In an effort to improve the analytical capacity of the MoF's Fiscal Policy Unit (FPU) to provide such analysis, the project provided EViews training and ad-hoc technical assistance during the first two quarters of Year 3. An external consultant had developed the EViews econometric software package to model the Medium-Term Budget Framework (MTBF), mirroring what was modeled in a series of linked Excel spreadsheets. The EViews model also allowed the added capability of being able to project long-term fiscal trends across scenarios under varying sets of assumptions about the future path of economic factors.

Assistance was designed to enable the FPU to provide GIRoA decision makers with more objective and balanced analysis from which to base decisions on current and prospective expenditure programs and taxation activity. The EViews training curriculum was designed to prepare participants to be able to produce forecasts using static and dynamic regression models and test the quality of forecasts. The EViews training provided a foundation for the following:

- Understanding a modern econometric software package, econometric theory, and the practical application of EViews;
- Methodologies to develop and apply estimation models using local fiscal and economic data, including the review and improvement of existing forecasting models and the development of new models;
- Practical work with and development of advanced macroeconomic models; and
- Interpretation and use an EViews version of the MTBF model. With EViews training coming to a close, FPU staff have been introduced to ways to improve their macroeconomic modeling and analysis skills. If these new skill are implemented, it is hoped that this will help MoF leadership improve public spending decisions, enhance domestic revenue projections, and develop tax policy options.

Year 3 Results with USAID/EGGI Assistance

The first module of a planned four modules of the training program in EViews was delivered as scheduled. Certificates were awarded on February 27, 2012 to four members of the FPU who had completed the first module on modeling and forecasting using Microsoft Excel and the EViews econometric package. These certificates acknowledged completion of the training program "Introduction to EViews." Each participant was also given a copy of the course text, "Econometric Models and Economic Forecasts," for future reference. The EViews training included data entry and interpretation, how to perform checks

on data integrity and identify data characteristics, and how to transform data into formats suitable for modeling. The training also provided an introduction to the statistical methodology that underpins the method of "least-squares" estimation of relationships among variables. Materials covered application of this method in the estimation of cross-sectional and timeseries models, using multiple variables. Curriculum also covered methodologies to judge the quality of models and significance of variables using various statistical indicators. Participants were introduced to methodologies to apply statistical tests to the residuals from regression estimations to identify deficiencies in model specification and learned how to reduce these through the introduction of dynamic variables.

Following completion of the first module, delivery of the course was suspended and the workstream discontinued as requested by USAID in February 2012. A final report was produced on the delivery of the workstream. The report content includes copies of the course outline and the training materials prepared for and used in the delivery of the course.

Conclusions and Lessons Learned

While the EViews training was delivered as planned to the FPU, USAID cancelled the training and the Fiscal Policy workstream activities since the FPU did not have the resources or leadership commitment necessary to build sustainable, long-term capacity. The Fiscal Policy advisor identified several areas that need to be addressed for EViews training or fiscal policy support to the FPU to be implemented successfully and sustainably in the future.

Sufficient FPU resources: The limited number of staff in the FPU, and the frequent calls for their work on urgent projects, in addition to their normal work-load, led to periodic needs to re-schedule or compress training sessions. That meant that the advisor had to prepare additional explanatory material to cover points that would usually be resolved through discussion in class. If the FPU had additional staff, this would support the ability of FPU staff to attend and absorb training while also completing the normal activities of the FPU. During the first and second quarters, the project anticipated a progressive expansion of the FPU to a total of 10 staff based on discussions with the head of the FPU. However, the FPU was not able to expand at the anticipated rate.

Prioritization of training and technical assistance: Although the EViews training was considered important as a means to support the proposed future adoption of an EViews version of the MTBF, the training activities did not appear to be a priority for GIRoA.

USAID should continue to encourage MoF to build a Fiscal Policy Department of sufficient size to be able to encompass the functions of revenue analysis and forecasting, budget expenditure planning and execution analysis, fiscal planning, macroeconomic monitoring and modeling.

Training Summary

Year 3 Fiscal Policy Total:
12 Participants, 32 Person-days training

12 male participants

0 female participants



Each  = 10 participants

Workstream 2: Tax Policy/Non-Tax Revenue

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Tax Policy/Non-Tax Revenue: Year in Review

Background

Non-tax revenues, and ensuring their proper collection and administration, are critical to the growth of the Afghan national budget. Throughout Year 3, the project supported ARD to identify ways to enhance collection of non-tax revenues. Many non-tax revenue streams provide little revenue and may have a negative net economic benefit. Others provide revenue but are overly complex in their construction and application. Non-tax revenue reform efforts are important not only because they have the potential to increase revenues but also because they have the potential to streamline processes and reduce opportunities for corrupt practices.

Within non-tax revenues, the Ministry of Interior (MoI) contributed about 5% (630 million AFN) from the collection of motor vehicle registration, motor vehicle licensing, and driver licensing fees. However, it is estimated that in Kabul alone only about 25% of drivers and 30% of vehicles are properly licensed. The procedures for administering these registrations and licenses, including issuance, transfer, and renewal, are cumbersome and costly to users. Current processes are lengthy, complex, opaque, and provide numerous opportunities for graft by MoI administrators. GIRoA has the potential to increase revenue if these processes can be simplified, made more transparent, and automated. At the request of the MoF ARD NTR Director, Ms. Amina Ahmady, the project began supporting the assessment of the motor vehicle registration, motor vehicle licensing, and driver licensing non-tax revenue streams at the MoI Traffic Directorate in November 2011.

The ARD NTR Directorate reached an agreement with MoI and Traffic Directorate officials to form the Non-Tax Revenue Reforms Implementation Working Group, comprised of officials from the MoI, Traffic Directorate, and ARD NTR Directorate as well as the project advisors, to review Traffic Directorate revenue streams and develop reform implementation plans. An Adam Smith International (ASI) advisor to the NTR Director also observed several of the working group meetings. The project advisor also worked with the ARD NTR Directorate to lay the groundwork for implementing these reforms.

Year 3 Results with USAID/EGGI Assistance

Following the establishment of the Non-Tax Revenue Reforms Implementation Working Group, project advisors met with key counterparts from the MoI, Traffic Directorate, the NTR Directorate, and the Kabul Traffic Department to build working relationships and introduce the goals and objectives of the reform process, and working group activities.

In December 2011, the project worked with the NTR Directorate and the MoI Traffic Directorate to develop a draft workplan for the planning and implementation of traffic reforms, focusing on vehicle registration, vehicle licensing, transfer of vehicle ownership, and driver licensing. The workplan identified deliverables, key tasks, and detailed timelines for working group activities during Year 3.

In February 2012, the working group completed the review and documentation of the current vehicle registration process at the MoI Traffic Directorate and Kabul Traffic Department and developed a report outlining potential reforms to streamline the process and enhance non-tax revenue collection. The team visited relevant offices involved

vehicle registration and conducted an analysis of historical revenue collection data. This effort was distinct from previous process documentation efforts, since the team collected information through physical observation and numerous interviews with officers, vehicle owners, and brokers, providing a more detailed and accurate view of the current process. In April 2012, the working group delivered the vehicle registration report to the Director General of Revenue at ARD, Dr. Zamanzai, who then shared the report with the Minister of Finance.

In May 2012, the working group completed the review and documentation of the current national and international driver licensing processes. The team visited the Kabul Traffic Department and other government entities, observing the process and conducting interviews with officers, applicants, and brokers. Although a review of the driver licensing process was previously conducted by other donor projects, this effort provides a more accurate and up-to-date overview of the process. This review also provides a benchmark from which to develop recommendations for improvement and modernization of the current system, facilitating an increase in related revenue collection.

In August 2012, the working group completed the review and documentation of the traffic fines collection process at the MoI Traffic Directorate. Following official approval from MoI Traffic Directorate

SPOTLIGHT: Small-Scale Reforms at Ministry of Interior Kabul Traffic Department Could Result in Increased Collections of 10-15 Million AFN Annually and Reduce Corruption

In September 2012, the working group supported the implementation of driver's license practical exam fees as a new revenue stream for the MoI Kabul Traffic Department. While the ARD Traffic Directorate approved the establishment of a flat fee of AFN 200 for each driver's license exam in May 2012, traffic officials had delayed the actual implementation of the fee. Prior to establishing the driver's license practical exam fee, traffic officials charged applicants unofficially and applicants were charged different amounts, with many paying up to 2,000 AFN. The working group continued their discussions with the ARD, the MoI Traffic Directorate, and the Kabul Traffic Department about the delayed implementation and loss of potential revenue, and the Traffic Directorate implemented this new revenue stream on September 2, 2012.

This initiative will enhance driver's license revenue collection by an estimated 10- 15 million AFN annually in Kabul, and the working group is supporting the Traffic Directorate to extend this initiative to other provincial traffic departments. Although implementation of this new revenue stream will not significantly increase revenue, it is an important first step towards small-scale reform implementation within the Kabul Traffic Department that will pave the way for more comprehensive reforms in the future.

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management in early August 2012, the working group visited traffic fine collection offices at the Traffic Directorate, Kabul Traffic Department, and other government entities involved in traffic fine collection and processing. The working group observed processes and conducted interviews with officers, vehicle owners, and drivers, developing a detailed overview of the traffic fine collection process that can be used as a benchmark from which to develop recommendations for improvement. The project also supported the working group to investigate the use of mobile money payments for collection traffic fines, noting that successful implementation of this initiative is dependent on the functionality of mobile money payments by all mobile companies in Afghanistan.

Throughout the year, the project advisor and ARD NTR Directorate continued their efforts to get high-level support for traffic reform implementation and followed up on traffic non-tax revenue reform implementation efforts, meeting with officials from the MoI, Traffic Directorate, Anti-Corruption Commission, Economic Committee of Council of Ministers, and Parliament. During the meetings, the project advisor and ARD representative presented key findings from the vehicle registration and driver licensing assessments, discussed implementation steps for traffic reforms, and solicited high-level support for these reforms. The project advisor also met with the US Military advisors and Canadian Police advisors supporting the MoI Traffic Directorate to get their support for reform efforts, but these advisors did not participate in reform efforts during the year.

In July 2012, the MoI Deputy Minister of Policy and Strategy met with the ARD NTR Director to discuss traffic non-tax revenue reforms implementation efforts and share the findings of the vehicle registration revenue stream report. This meeting was held to help MoI officials understand the need for a traffic revenue reform project and motivate key MoI officials to engage in and support traffic reform efforts. Despite having supported the establishment of the working group, MoI leadership has not demonstrated cohesive support for reforming the traffic revenue streams. This is likely based on the involvement of MoI and Traffic Directorate high ranking officials in the extraction of unofficial money and other political concerns that prevent the working in implementation of traffic reforms.

Conclusions and Lessons Learned

In Year 3, the project, through the working group, developed a strong foundation for non-tax revenue reforms that have the potential to increase revenues and decrease the opportunity for corruption at MoI. The working group identified challenges to revenue collection in vehicle registration, driver licensing, and traffic fines processes and recom-

State-Owned Enterprise Non-Tax Revenues:

In September 2012, at the request of the ARD NTR Director, the project advisor began supporting the ARD NTR Directorate to address state-owned enterprise revenue collection. According to the data collected from the MoF Afghanistan Financial Management Information System (AFMIS) and the General Directorate of state-owned enterprises, there is no clear financial reporting system for state-owned enterprises, there is no mechanism to differentiate tax and non-tax revenue collection, and the revenue is collected to the tax related and miscellaneous accounts.

Following a comprehensive analysis of the current state-owned enterprise financial reporting system, the NTR Directorate outlined reform recommendations with the support of the project advisor. Recommendations include developing a new financial reporting form, establishing a specific bank account for non-tax revenue collection, and promoting awareness of the proposed reforms among Kabul and provincial state-owned enterprises through a one-day workshop. The project advisor assisted the ARD NTR Directorate to prepare for the state-owned enterprises workshop on non-tax revenue collection, planned for October 2012. The non-tax revenue reforms workshop will facilitate state-owned enterprise non-tax revenue collection and will communicate the proposed reforms that will help state-owned enterprises differentiate collection of tax and non-tax revenue.

mended both comprehensive and small-scale reforms that will streamline procedures and decrease the corruption apparent at each step of the process. While the group supported the reform of the driver's license practical exam fee, the successful implementation of the other proposed reforms require MoI and Traffic Directorate support, particularly that of the MoI Deputy Minister of Security and Traffic Director. While they supported the establishment of the working group, MoI Traffic Directorate management is not currently ready or willing to implement these reforms that limit the ability to extract unofficial money. The project advisor and the ARD NTR Directorate continue to work closely with the MoF, the Anti-Corruption Commission, and Parliament to build the understanding and support for reforms implementation at the MoI and Traffic Directorate.

Workstream 3: Program Budgeting

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Program Budgeting: Year in Review

Background

The MoF initiated a number of reforms over the years to improve overall public financial management in Afghanistan, including program budget reform, the MTBF, provincial budgeting reform, and AFMIS. As part of the public financial management reform process, the MoF launched program budget reform in 2006 as a pilot that was gradually rolled out to all budgetary units in 2010. Program budget reform aimed to shift the focus from inputs to outputs and outcomes, which helps to achieve better alignment of resources with the government's policy priorities and to ensure transparency and accountability of such resources through more effective budgetary institutions and processes.

Since 2007, the project and its predecessors have provided technical assistance to budgetary units in program budget reform implementation. In Year 3, the project aimed to further consolidate the support in program budgeting and continue to support procurement and financial planning (PFP) and performance monitoring and reporting (PMR) to improve budget execution, results, and accountability. Currently, the project provides technical assistance to 38 budgetary units, using embedded advisors to provide on-the-job training, coaching, and mentoring in program budget preparation, budget execution, and associated reforms led by the MoF. The project's technical assistance progressed toward program-based budget submissions, development of program structures, budget formulation, budget execution, and reporting. At the request of USAID, the project conducted the first-ever comprehensive capacity assessment of all assigned budgetary units that received project support to determine their current capacity in implementation of program budgeting and associated reforms. In a separate policy paper, the project provided policy recommendations that will help the MoF move towards program-based appropriations.

Year 3 Results with USAID/EGGI Assistance

In Year 3, the project played an important role in strengthening key budgetary institutions and processes in line ministries. The project supported 38 budgetary units throughout the entire budget cycle: budget formulation, execution, and reporting. Based on the project's capacity assessment, the project expects almost half of the budgetary units can graduate from project support in the early part of Year 4, and some additional budgetary units can graduate by the end of Year 4.

In budget formulation, the project supported budgetary units to complete the Budget Circular 1 (BC-1), BC-2, Budget Hearing presentations, and budget negotiations. Most budgetary units that are supported by the project have acquired the necessary skills to prepare on-time budget proposals that are consistent with their sector or ministry strategies and guidelines issued by the MoF. Budgetary units successfully presented and negotiated the FY 1392 budget with the Budget Committee. The team conducted training programs and mentored the Budget Implementation Teams (BITs) and Internal Budget Committees (IBCs). As a result, almost all BITs and IBCs became operational, met regularly, and developed capacity to complete most of the budget formulation processes.

Budgetary unit budget execution also improved in FY 1390. For the first time, total development budget execution exceeded \$1 billion. One of the key reasons for increased budget execution include the introduction of PFP in budgetary units for the FY 1390 budget and improved budgetary unit capacity. The PFPs helped line ministries to begin procurement plans in advance for major projects, which in turn



Training participants share ideas during the 1392 Budget Circular 2 workshop conducted for Ministry of Women's Affairs provincial financial managers.

helped in having better expenditure plans and prioritization of expenditures for each month. The team provided extensive training and mentoring on PFP in line ministries, which contributed to an increase in budget execution from 39% in FY 1389 to 52% in FY 1390. This increased budget execution contributed to better service delivery and results on the ground.

With the project's support, 10 budgetary units continued to make progress in performance reporting. These budgetary units are the part of 19 budgetary units that have been piloted by the MoF over the last two years. Despite data limitations for quarterly reports, budgetary units have submitted reasonable performance reports with support from the project. The project provided detailed mentoring and coach-

FY 1391—A Nine-Month Fiscal Year:

GIRoA adjusted the fiscal calendar so that FY 1392 will begin December 21, 2012. As a result, FY 1391 is only nine months, running from March 21—December 20, 2012.

ing sessions for BIT officials to improve performance reporting with a particular focus on outputs and outcome indicators. With this training, performance reporting is expected to improve further in the coming years. Performance reporting enables ministry leadership to hold officials accountable for their performance and ultimately remove agency-level blockages to deliver services.

With the support of the project, the budgetary units of the Independent Directorate of Local Governance (IDLG) and the Ministry of Women's Affairs (MoWA) conducted workshops for their provincial officials on budget formulation and execution. The workshops facilitated close coordination and communication between provincial officials and the budgetary units, which will help provinces to play a larger role in budget formulation and execution. The project aims to propose similar workshops for other budgetary units in Year 4. In order to improve the capacity in the budget cycle, the project and MoF conducted a two-week annual training program for 56 budgetary units. The training program was more comprehensive than those of previous years and included detailed modules on sector strategies, output and outcome indicators, PFP, and PMR.

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Program Budgeting

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The project also completed an ambitious capacity assessment of 46 budgetary units to identify priority areas for support and make recommendations to budgetary units and MoF. The results show that all eight ministries that graduated from USAID assistance have sufficient capacity to implement program budget and associated reforms in budget formulation, execution, and performance reporting. Both institutional arrangements and trained officials are in place in all eight line ministries to carry out reforms. Results for the 38 budgetary units that the project is currently supporting are mixed: six budgetary units are rated strong and are ready to be graduated; 12 budgetary units could be graduated from most areas of support within a year; and most remaining budgetary units can be graduated within two years. Weak areas with low capacity and sustainability include the lack of strong political commitment, weak coordination with the MoF, weak understanding of sector strategies and output and outcome indicators, and the lack of sufficient capacity in PFP and PMR. Currently, MoF is not interested in graduating line ministries from technical assistance in the near future.



Budgetary Unit officials prepare budget proposals for their respective ministries in the working group during a Budget Circular workshop conducted with the support of the project.

By the Numbers:

Budget execution increased from 39% in FY 1389 to 52% in FY 1390.

During Year 3, the program budget team participated in several monthly technical assistance coordination meetings chaired by the Director General of Budget. Representatives from UNDP, DFID/ASI, and the World Bank Capacity Building for Results (CBR) project also attended the meetings. The project also coordinated with UNDP embedded staff at MoF and line ministries, working closely on all key steps in the budget formulation process as well as PFP, PMR, and the program budgeting structure. The program budget team also worked with the DFID/ASI advisors at MoF on PFP, PMR, budget formulation, program budgeting policy papers. The project also met with AusAID representatives to brief them about the project's program budget activities during the initial stages of the AusAID project at MoF.

Conclusions and Lessons Learned

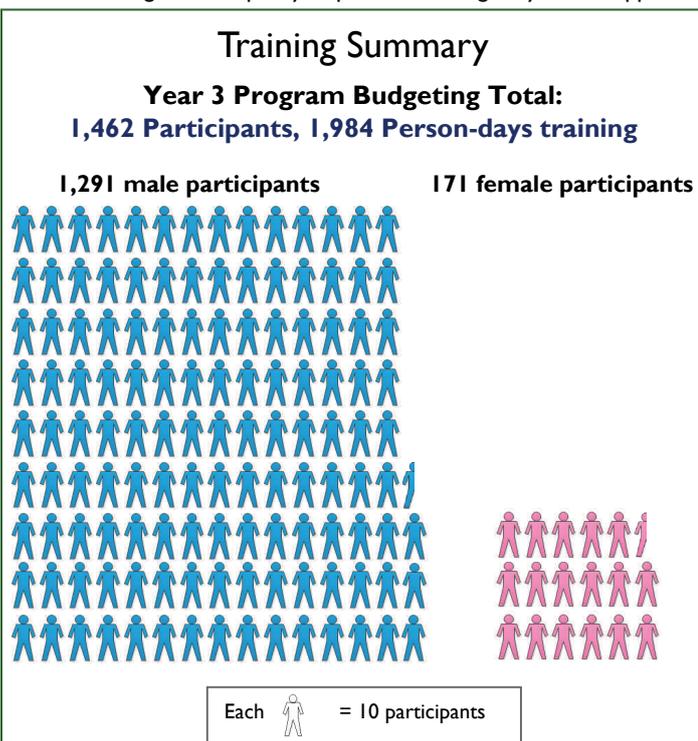
In Year 3, the program budgeting team further consolidated the gains made in previous years in all aspects of support. The overall public financial management capacity improved in budgetary units supported

by the project. However, several areas need direction and guidance from the MoF to further advance public financial management capacity in government agencies.

The MoF has to demonstrate its commitment to reform and provide a clear roadmap to budgetary units. Without this roadmap, there is a risk of losing reform momentum. The MoF's roadmap should include steps towards program based appropriations. Both donors and government agencies have been talking about the implementation of National Priority Programs (NPPs), but it is not clear how NPPs and the current program structure in ministries will be aligned. The MoF and ministries have to implement automation and integration of various public-financial management processes to further increase budget execution that has benefitted from PFP implementation. Ministries continue to have capacity issues in project planning and design. Currently there is no technical assistance in project planning and design to major infrastructure ministries. This is a key impediment in the formulation and execution of major projects.

Key Recommendations from the Capacity Assessment:

- Need a stronger high-level commitment for and engagement in reform.
- IBC/BIT meetings should happen frequently with participation from all directorates.
- MoF-led training programs should include more comprehensive modules.
- MoF sectors should take a proactive role in the reform process and internalize all aspects of reform in coordination with budgetary units.
- Expedite Pay and Grading Reform and use super scale positions for key members of IBCs/BITs.
- MoF and project should prepare specialized training programs and capacity building measures for budgetary units in ANDS, sector strategies, and output and outcome indicators.
- Maintain close coordination among BIT/IBC members is essential to improve the overall budget formulation process under program budget reform.
- Close coordination between the finance and procurement directorates and coordination with donor agencies.
- MoF should introduce a simplified performance management information system to improve performance reporting.



In Year 3, MoF did not conduct a planned budget program structure assessment or implement program-based budgeting due to a lack of political commitment. In Year 4, MoF plans to conduct an assessment of the budget program structure in key line ministries, particularly those in which program-based appropriations will be introduced. The project plans to support MoF in the assessment. Additionally in Year 4, MoF plans to work with line ministries to accept program-based budget proposals and conduct budget hearings using program structure and performance indicators.

Workstream 4: Provincial Budgeting

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Provincial Budgeting: Year in Review

Background

Budget preparation in Afghanistan is highly centralized. Line ministries prepare and submit budget requests to the MoF, in most cases without consulting provincial departments. Most provincial departments are not aware of their allocated budget until they receive their allotments for the quarter, due to weak communication between central line ministries and provincial departments. To address this issue, the MoF initiated program and provincial budgeting reform in 2006-2007. Program budget reform focused on linking policies with the budget at the central ministry level by developing policy-based programs as the framework for the national budget. Provincial budget reform represented the next step, rolling programs out to provinces and requesting provinces to develop and cost activities that support the centrally-developed programs to address local needs. USAID has supported the MoF in program budgeting reform implementation since 2007 and provincial budgeting reform since 2010.

In Year 3, the project was successful in providing training and technical assistance to the pilot provincial departments in preparing their project proposals for funding under the national core budget. This pilot effort represented the first time the MoF formally requested provincial departments to submit budget estimates for the FY 1391 national budget process. During the initial stages of the pilot the MoF selected five ministries—Ministry of Agriculture Irrigation and Livestock (MAIL), Ministry of Public Health (MoPH), Ministry of Education (MoE), Ministry of Rural Reconstruction and Development (MRRD), and IDLG. After the final budget review, IDLG was removed from the pilot in January 2012. Additionally, of the pilot ministries, only MoE was able to find funding for the proposed pilot projects. The project successfully partnered with MoF to conduct training for officials from 14 key provincial directorates across 18 provinces to build public financial management capacity in planning, budgeting, and procurements at the provincial level. The project also conducted outreach meetings with provincial officials and USAID provincial reconstruction team (PRT) representatives to strengthen communication and coordination between key stakeholders on provincial budgeting activities.

Year 3 Results with USAID/EGGI Assistance

During the first quarter of Year 3, the project completed a series of BC-1 and BC-2 regional training workshops and assisted pilot provincial line directorates to prepare project proposals aligned with the objectives of their line ministries' NPPs. This pilot program provided an opportunity for provincial departments to identify priority development projects in line with national programs and include estimates for the operating expenses needed for project sustainability in the national budget. Essentially, 99% of the 170 pilot provincial line directorates submitted project proposals by the December 2011 deadline. Prior to the provincial budgeting program, development project proposals were identified for funding by the line ministries and external donors often without input from the related province or consideration for local priorities reflected in the Provincial Development Plans (PDPs). Development project proposals were also often funded without consideration for the operating budget funds needed for sustainability.

In the second quarter, the project supported the delivery of a series of four-day regional public financial management training programs for representatives from 14 key provincial line directorates, building capacity in budgeting and financial management to improve provincial budget planning and execution. These trainings were the next step in MoF's provincial budgeting capacity building program.



Provincial officials practice to prepare the Budget Circular submission during the provincial budget circular training workshops.

During the third quarter, the project supported the MoF in conducting a series of four-day provincial budgeting workshops in Kabul, Herat, Mazar, and Jalalabad to prepare the MoE provincial directorates for completing BC forms for the FY 1392 national budget. The workshops targeted 133 Directors and Administrators of Finance and Planning from MoE provincial departments for all 34 provinces. The MoE was the only ministry of the four pilot ministries to identify funding for their FY 1391 pilot projects, so they were required to submit new BC forms for FY 1392. All 34 MoE provincial departments submitted project proposals on time.

By the Numbers:

168 of 170 provincial line directorates (99%) completed their BC forms in December 2011 as a result of project technical assistance.

During the fourth quarter, the project and the MoF Provincial Budgeting Unit (PBU) organized a three-day orientation on the MoF provincial budgeting reform program and a six-day training on GIRONA's procurement law and process for provincial budgeting officers. This was an effort to increase the provincial budgeting officers' understanding of the provincial budgeting reform program while also building their understanding of the procurement process, which is weak in most provinces.

At the request of USAID, and with the approval of the Director General of Budget, the project hired 16 additional provincial budgeting officers in July 2012 and deployed them to five new regional hubs in Nimroz, Faryab, Badakhshan, Paktiya, and Wardak in anticipation of continuing the provincial budgeting pilot in FY 1392. The team had also received numerous PRT requests for increased provincial budgeting training and technical assistance. After successfully hiring and deploying the new officers, the MoF directed USAID to scale back the activity due to the lack of funding for pilot projects for three of the four pilot ministries. By September 2012, the project had scaled back to its initial level of 10 provincial budgeting officers in Mazar, Herat, Jalalabad, Kandahar, and Kabul and is awaiting final agreement between USAID and the MoF on the future scope of provincial budgeting reform activities. This represented a major challenge for the provincial budgeting workstream in Year 3.

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Provincial Budgeting

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Throughout the year, the project coordinated with representatives from UNDP, AusAID, and PRTs to implement the MoF PBU annual plan. The project collaborated with the provincial budget central team that is supported by UNDP and with the GIZ Supporting Local Governance Uruzgan (SLGU) project. The project also conducted briefings for PRTs throughout the country to provide them with the latest information on provincial budgeting reform and get their feedback on provincial budgeting activities.

Conclusions and Lessons Learned

In Year 3, the workstream focused primarily on the provincial budgeting pilot that was implemented with MAIL, MoPH MoE, MRRD, and IDLG across their 34 provincial departments. IDLG was removed from the pilot in January 2012. Key lessons learned during the pilot implementation can be applied to future pilot program planning and implementation. While the FY 1391 provincial budgeting pilot was particularly successful at the technical level, there were still several major challenges to its overall success. Key recommendations and areas for future pilot programs improvement include:

The MoF should seek political buy-in upfront from high-level ministry officials to ensure greater involvement of line ministries in supporting provincial departments throughout the process.

Determine donor/government funding for the pilot early on. The provincial budgeting pilot has been delayed until FY 1392 so funding can be identified for the MAIL, MoPH, and MRRD pilot projects. This is still in progress.

Implement a norms-based budgeting system for provincial resource allocation. Each line directorate received the same allocation of \$500,000 for their pilot priority project proposals. For future programs, allocations should be based on objective criteria to more specifically address the special needs of each province.



Provincial representatives from 14 key provincial line directorates attended a four-day regional Public Financial Management training program.

Require operating budgeting for future pilot programs to help ensure continuation of existing operations, activities, and maintain existing assets. Future pilots can gradually implement an operations and maintenance budgeting approach for provincial budgeting for key sectoral ministries and their provincial departments.

Two-Phase Pilot Program: The provincial budgeting pilot program followed the two-phased national budget formulation process. MoF requires BC-1 submissions from line ministries by late May with operating and development budget estimates. Based on MoF determined indicative ceilings, the ministries then develop detailed budget submissions using MoF BC-2 forms in September/October. MoF adapted the BC-1 and BC-2 forms for the pilot provincial departments and conducted training with follow up assistance on completing the forms for priority project proposals.

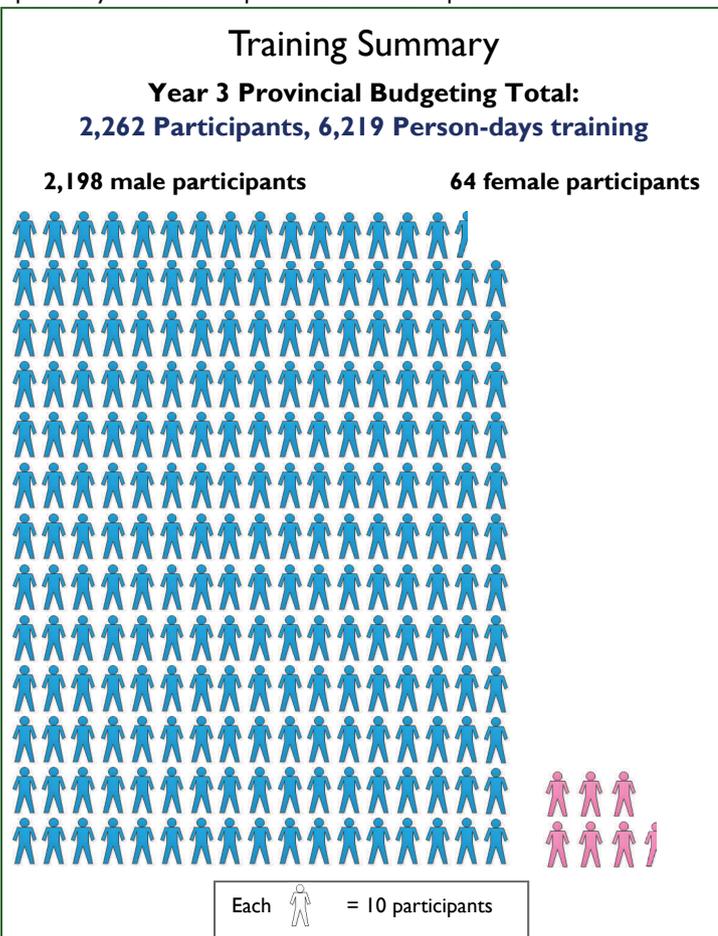
Expand pilot participation to mustofiats, economy directorates, and provincial councils, as these stakeholders are involved in the provincial development planning and budget execution process. These provincial units should participate in the provincial budgeting workshops and be kept informed as the provincial departments prepare their BC submissions.

Better align pilot program rollout with the national budget calendar. Pilot provincial departments should submit BC-1 and BC-2 forms when their line ministries are preparing their overall BC-1 and BC-2 submissions. This will integrate the provincial submissions into the national budget process.

Link pilot projects to PDP: Future pilot programs should encourage PDP-based projects. Line-items can also be inserted on the BC-1 and BC-2 forms to indicate if the project is based on the PDP and if provincial departments consulted with the Provincial Development Committee (PDC).

Expand pilot program to include project implementation and budget execution training. The FY 1391 pilot program focused on budget preparation, but budget execution and implementation of core budget funded projects at the provincial level is equally important. Future pilot training can include modules on project implementation and budget execution for funded projects and requesting operating budget estimates for continuing operations and activities.

Central line ministries should lead the pilot process with guidance and support from the MoF. The MoF and project can support the line ministries throughout the budget formulation process; however, the ministries should lead the process of seeking input from their provincial departments to make the provincial budgeting reform process sustainable.



Workstream 5: Tax Administration

Economic Growth and Governance Initiative

Tax Administration: Year in Review

Background

Afghanistan has one of the lowest revenue mobilization rates in the world. While GIRoA has made measured progress in its revenue generation, it must do significantly more to cover its operating costs and the costs of delivering essential and efficient services to its citizens. Working toward achieving this goal, the MoF continues to improve management and operations of tax administration. These actions are essential to bringing into compliance the many taxpayers and businesses who are either non-compliant or unaware of their tax responsibilities. Since 2010, USAID assistance to the MTOs in Herat and Mazar has enabled both provinces to enhance their revenue collection efforts and audit capabilities significantly. In early 2011, USAID began assistance to the MTOs in Jalalabad and Kandahar. USAID has also assisted in the development of taxpayer education and outreach programs at the MTOs, which are critical to ensuring taxpayers are aware of their obligations under Afghanistan's "self-assessment" system. These initiatives have been instrumental in increasing provincial MTO tax return filings and revenues and are helping MTOs sustain improvements in these areas.

Although the project only had initial authorization in Year 3 to provide support for provincial tax administration, it was clear that the ARD required broader support from the workstream, including support to the Kabul Large Taxpayer Office (LTO) and MTO as well as the provincial tax offices. The original objective of providing management training for provincial managers was broadened to include all ARD managers below Director level.

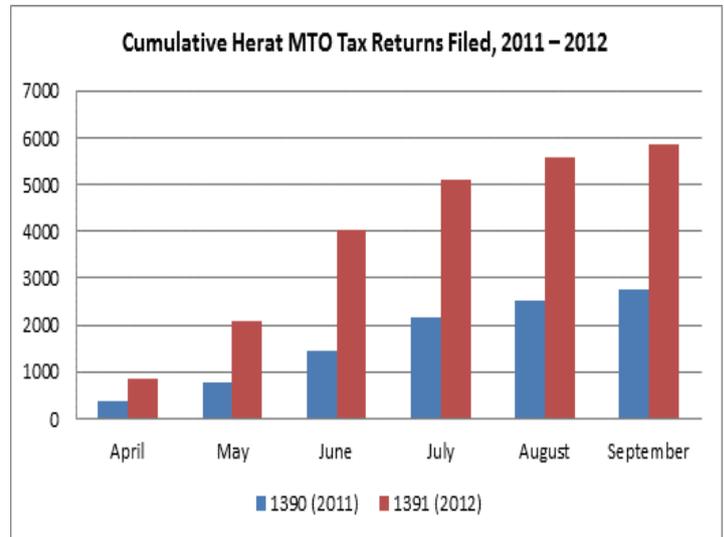
While the project successfully delivered basic and functional management training, the audit training scheduled for February 2012 and the enforcement training for September 2012 were postponed. Even though the project only partially achieved its technical training goal, the project was able to provide technical guidance that helped to produce significant improvements in both filing and payment compliance.

Year 3 Results with USAID/EGGI Assistance

One of the primary goals of the tax administration workstream in Year 3 was to improve the management acumen of ARD managers by providing basic and functional management training. The training enlightened fundamentals of managing people, a skill that was lacking at all



Tax officials show their certificates for successfully completing a three-day Basic and Functional Management training workshop.



levels of LTO and MTO line management. The project delivered management training to 65 LTO and MTO managers. As a byproduct of the management training, participants gained specific knowledge regarding the management of functions such as revenue collection, taxpayer service, and taxpayer auditing. This information was instrumental in the significant growth in revenue mobilization. The additional knowledge also assisted the audit units to shift from performing streamline taxpayer audits, which provide limited revenue returns, to full audits, which allow MTOs to better conform to international taxpayer audit standards and best practices and support revenue mobilization. The team also trained 38 tax officials in intermediate Afghanistan tax law, supplementing basic tax law training that was delivered as part of induction training in 2010. Intermediate tax law training builds participants' capacity to understand the law and apply the law to relevant taxpayer cases.

As a result of these project activities in Year 3 Herat, Mazar, and Jalalabad MTOs consistently met and surpassed established revenue collection targets and tax return filings throughout the year. The project also supported MTOs to develop and maintain taxpayer education and outreach programs. These programs were maintained primarily in Herat and Mazar, which is reflected in revenue collection and tax return filings at both MTOs.

Herat MTO exceeded annual collection target for FY 1390 and is on track for FY 1391. At the end of FY 1390 in March 2012, the Herat MTO reported total revenue collections of 231,054,954 AFN, exceeding its annual collection target of 215,000,000 AFN. In FY 1391, Herat MTO's collection target is 350,000,000 AFN. During the first six months of FY 1391 (April to September 2012), Herat MTO collected 233,084,359 AFN, a 62% increase over the same period in FY 1390 and 66% of its FY 1391 annual collection target. Additionally, Herat MTO's tax return filings between April and September 2012 exceeded filings for the same period in 2011 (5,859 in 2012 compared to 2,775 in 2011, a 111% increase). Overall, the project's push to maintain taxpayer education programs paid substantial dividends in taxpayer payment and filing compliance.

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Tax Administration

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Mustofis Understand the Value of Tax Administration Trainings

The project was successful in convincing Mustofis of the value of allowing employees to attend trainings. It has long been a challenge for the project to get the right employees to attend training for the appropriate training days. While the struggle is not completely over, Mustofis are now nominating employees for training instead of denying training as they did previously. This change is most likely a result of the significant revenue collection improvements, as the project is able to link these improvements to technical trainings.

Mazar MTO exceeded its annual collection target for FY 1390 and is on track for FY 1391.

At the end of FY 1390 in March 2012, the Mazar MTO reported total revenue collections of 289,054,965 AFN, far exceeding its target of 182,000,000 AFN. For FY 1391 Mazar MTO's collection target is 250,000,000 AFN. From April to September 2012, Mazar MTO collected 186,705,999 AFN, a 78% increase over the same period in 2011. This amount represents 74% of Mazar MTO's

FY 1391 target. Additionally, Mazar MTO's tax return filings exceeded filings for the same period in 2011 (5,702 in 2012 compared to 4,289 in 2011). By following project advice to advance taxpayer education and outreach, the MTO was able to see the benefits in increased payment and filings.

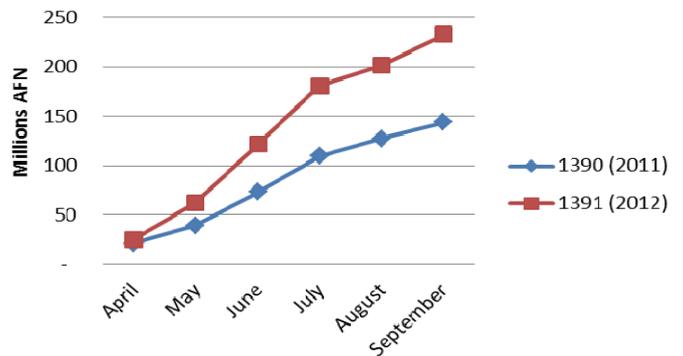
Jalalabad MTO realized commendable revenue collection figures although its performance is not at the optimum level.

At the end of FY 1390, Jalalabad MTO reported total revenue collections of 141,476,220 AFN, far exceeding its target of 50,000,000 AFN. Jalalabad MTO's collection target for FY 1391 is 185,000,000 AFN. During the first six months of FY 1391 (April to September 2012) Jalalabad MTO collected 141,476,220 AFN, an 86% increase over the same period in FY 1390. This amount represents 76% of Jalalabad MTO's FY 1391 collection target. However, Jalalabad has not fully adopted the regime of maintaining proper tax return filing records to support their outstanding payment compliance. For the entire FY 1391 filing period, Jalalabad only reported 1,895 tax return filings. The advisor continues to work with the MTO Director in an attempt to change existing philosophy for such record keeping.

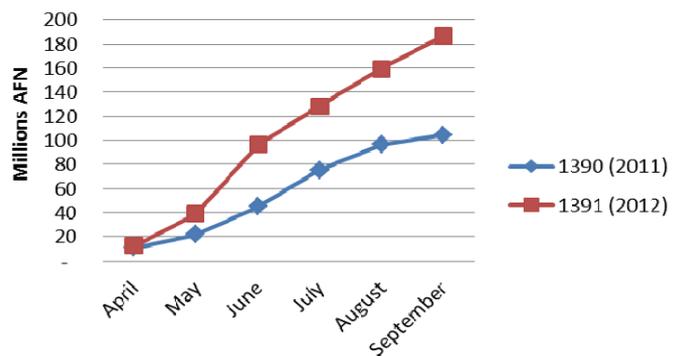
Kandahar MTO presented a year-long challenge. The installation of tax units was stalled until May 2012, as tax officers who feared for their lives did not report to work from late 2011 to early 2012. While the tax officers attended technical training, it was clear that their progress was far behind where it should have been. Reporting processes and procedures have not been established at the MTO. To date, Kandahar MTO reported revenue collections of 42,035,691 AFN for FY 1391; however, the project does not currently have the means to verify these collections to provide appropriate advice.

Throughout the year, the project coordinated with ASI/DFID advisors to conduct tax law and audit trainings and on taxpayer education and zonal tax office efforts.

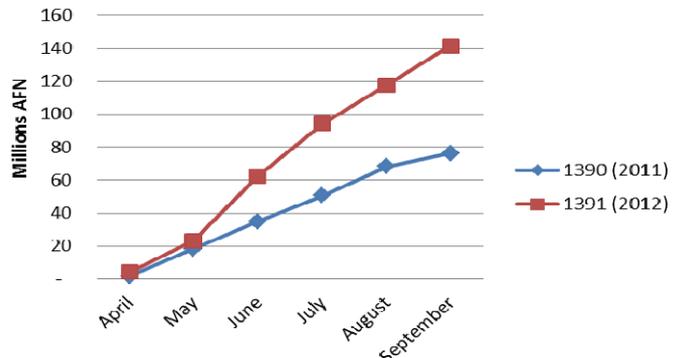
Cumulative Herat MTO Revenue, 2011 - 2012



Cumulative Mazar MTO Revenue, 2011 - 2012



Cumulative Jalalabad MTO Revenue, 2011 - 2012



Conclusions and Lessons Learned

Much of the tax administration work in Year 3 centered around delivering training to provincial participants. The primary lesson learned was that it worked well to bring provincial officials to Kabul for trainings instead of having project advisors travel to the provinces, allowing the project to avoid security restrictions associated with advisor travel. The project recommends using this model in future trainings.

The project is still looking for an acceptable answer or substitute for the lack of advisor presence in the provinces, and local national staff were used to provide daily on-site support to MTOs in Year 3. The promised partnership with the PRT has not worked primarily because it does not appear as if the appropriate level of effort was brought forth, or there is a lack of understanding as to what can or cannot be achieved at that level.

Additionally, ARD is currently in the planning stages of implementing a zonal tax office system, which will have smaller provincial tax offices report to larger offices and eliminate Provincial Mustofis from provincial tax office management. The elimination of Mustofis from provincial tax office management is an IMF mandate. It is anticipated that this reform will be implemented sometime during 2013.

Training Summary

Year 3 Tax Administration Total:
103 Participants, 325 Person-days training

102 male participants

1 female participant



Each = 10 participants

Workstream 6: Revenue Reconciliation Database

Economic Growth and Governance Initiative

Revenue Reconciliation Database: Year in Review

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 ARD is AFMIS; however, the capabilities of AFMIS to capture revenue data country-wide are limited. To address this issue, during Year 1 the project 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 over one month. 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, the project designed, developed, and implemented the RRD in 32 of the 34 provinces in Afghanistan. Training on using the RRD was also conducted for GIROA civil servants across the provincial mustofiats and multiple central ministries. USAID support for RRD continued through the first quarter of Year 2, during which the project retained programmers and technicians to maintain the application and provide technical support when issues arose. In March 2011, the RRD workstream ended as a part of the project's right-sizing changes. The project's expatriate advisor and CCN technicians assigned to the RRD were released, and the duties of maintaining the database along with other responsibilities associated with the revenue collection and reconciliation process were handed over to ARD.

A lack of consistent support and maintenance of RRD led to system failures and malfunctions that RRD users were unable to address, causing revenues to go unreported. In Year 3, the project again began working with ARD to assess the revenue reporting situation and develop recommendations for addressing these issues. As part of this support, the project explored the option of developing a centrally-hosted, web-based system for revenue reporting to replace RRD.

Year 3 Results with USAID/EGGI Assistance

During the first three quarters of Year 3, the project worked with ARD to begin the process of developing a centralized, web-based system to replace the existing RRD application. In December 2011, MoF established a working group to develop the requirements for the potential web-based revenue reporting system. The team also trained two ARD Planning Directorate tashkeel employees to assume the responsibilities of the team and help sustain RRD activities after the workstream is transitioned to GIROA. In the second quarter of Year 3, the project led this working group to complete an assessment of the specifications and build an initial prototype for the potential new system. The project presented the initial system prototype to the Director General of Revenue, Dr. Zamanzai, and the Planning Director of Revenue, Mr. Qarizada, on February 11, 2012 to receive counterpart support for moving forward with the development of a new web-based system. During the third quarter of Year 3, the project developed and submitted the final information resources management document (IRM), implementation plan, technical specifications, and proto-

type for the potential web-based revenue reporting system to ARD.

In the fourth quarter of Year 3, the project conducted a thorough assessment of the environment at ARD, including several interviews with ARD leadership, before moving forward with the development of a new web-based system. The project advisor concluded that ARD lacked the leadership support and resource commitment necessary for the successful implementation of a new web-based revenue system. Based on these observations, USAID discontinued efforts to develop a web-based replacement for RRD and instead focused on exploring other GIROA systems that could provide the tax and non-tax revenue reporting capabilities that ARD needs. The project conducted an analysis of alternatives that compared the features, costs, and implementation risks of the current RRD application and other systems such as the Standard Integrated Government Tax System (SIGTAS) and AFMIS as potential long-term solution for ARD revenue reporting.

Throughout the year, the project also addressed defects in the existing RRD application in several provinces and Kabul to assist ARD with their current revenue reporting issues. These activities included:

- *RRD repairs:* The project worked with the working group to fix the current RRD windows-based system in Faryab, Ghazni, Kandahar, Nimroz, and Kabul.
- *RRD application version control:* Based on a review of the current application deployed at the mustofiats, the project found that different versions of the system were deployed nationwide. This introduced different functionality, different reporting outputs, and different end user expectations. The project streamlined these different versions into one stable release that offered the latest functionality.
- *RRD application defect remedy:* The current RRD application suffered from a number of technical defects. The project addressed these defects and consolidated fixes into one stable release.
- *RRD standard software image:* A standard software image was produced for the RRD application to allow technical staff to more efficiently deploy the application using a standard set of instructions and documented software requirements. The standard software image added security restrictions that would prohibit end users from accessing operating system functionality beyond launching and using the RRD software. This was done to prevent misuse of the software, which is one of the root causes of system failure at the mustofiats.
- *Technical Documentation:* The technical documentation for the RRD application deployment was not thorough and, in many cases, incorrect. The project updated the technical documentation for technical and end user staff.
- *Plan for stabilizing RRD in six priority provinces:* The project developed a plan for remediating issues with the current RRD application at six priority provinces. The plan outlined the scope, schedule, and costs for these activities but was not executed since ARD could not produce the software that was previously procured and handed over to ARD. The project plans to execute these remediation activities in Year 4.

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Conclusions and Lessons Learned

Host country commitment and resource availability are key to the successful and sustainable implementation of a revenue system. These are critical success factors for any technology or business transformation, both for executing the task at hand and for providing a sustainable solution. The required level of commitment and resources were not evident during the project's assessment of the environment at ARD. In similar environments the execution of grant agreements that associate investments with the achievement of certain benchmarks by the ministry, such as allocating tashkeel staff or assigning funds as part of the national budget, have been successful in addressing these challenges. For example, USAID could ask ARD to allocate tashkeel staff and assign funds for revenue system maintenance in the national budget prior to committing to developing a new revenue system.

Additionally, other revenue system solutions designed to interface with the central AFMIS are already being deployed within GIROA. These applications have the ability to provide revenue reporting reconciliation and, with some modification, can also provide for the other needs of ARD. This negates the need for the effort, cost, overhead, and complexity that could be introduced by yet another point solution, such as a custom revenue system. ARD should be encouraged to consider the functionality that SIGTAS already provides and include non-tax revenue as part of the functional requirements for the system. Assessments, completed in partnership with the host country, should be conducted early to identify what parallel efforts exist in order to mitigate the risk of overlapping efforts and to eliminate further costs.

Workstream 7: Women in Government

Economic Growth and Governance Initiative

Women in Government: Year in Review

Background

Women's empowerment and participation in the development process is strongly linked to economic growth and the overall achievement of USG objectives in Afghanistan. As such, it continues to be a key priority of the project. In Afghanistan, gender equality is undermined by historical imbalances in political participation and access to resources and rights. Of the approximately 333,000 GIRoA employees, less than 20% are female. As part of the Afghanistan National Development Strategy (ANDS) and Millennium Development Goal benchmarks, GIRoA has committed to raise this number. To support this goal, USAID launched the Women in Government Internship Program in February 2010. The program emphasizes assistance to build women's capacity to participate fully in Afghan society by providing six-month internships to recent female university graduates with the goal of transitioning into full-time positions in the public and private sectors following a successful internship.

In Year 3, the Women in Government Internship Program expanded in Kabul, launched at the provincial level in Balkh and Herat, and laid the groundwork for the expansion of the program in Nangarhar. Through the end of Year 3, the program has provided internship opportunities to 190 interns in Kabul and the provinces, maintaining 83% job placement rate for program graduates. The program strives to remove constraints on Afghan women's participation in the civic sector of Afghanistan by placing recent female university graduates in six-month internships with the Afghan Government institutions. Improving the participation of women in government is vital to the overall development of Afghanistan. To support the increased number of interns, the team continued to coordinate closely with GIRoA ministries to identify internship positions and place graduated interns in full-time positions.

Year 3 Results with USAID/EGGI Assistance

In Year 3, the Women in Government Internship Program continued to improve women's participation in GIRoA through several strategic partnerships with government agencies and universities. In March 2012, the USAID Mission Director and Minister of Finance signed a statement of planned collaboration to establish 100 new internship positions at the ministry. The MoF is highly supportive of the women's internship program concept and the partnership will continue to pro-



The MoF provided thirty interns with full-time employment upon their successful completion of a four-month internship.

vide apprenticeships in Afghanistan as a way to expand job training and employment opportunities for women throughout the public sector. Thirty interns were assigned to four-month internships in April 2012 within the MoF. Following successful completion of the four-month internships, the team conducted a graduation ceremony attended by the Minister of Finance and USAID Mission Director, where the Minister of Finance announced the placement of 30 interns within the ministry as full-time employees.

A statement of planned collaboration was also signed with the Minister of Women's Affairs that formalized the partnership between USAID and MoWA to establish 100 internship positions in Kabul and the provinces. These partnerships promote the concept of internships and apprenticeships in Afghanistan and help expand employment opportunities for women.

The project also signed a Memorandum of Understanding (MoU) with the Chancellor of Kabul University, formally establishing a partnership between the project and University. The MoU formalized a mutually beneficial relationship between Kabul University and the Women in Government Internship Program. The program supports the University by helping recent graduates to find full-time jobs through the internship program. Kabul University will continue to support the project by connecting the internship program with qualified applicants and allowing the program to engage in on-

Intern Spotlight



Ms. Lima Khuram, a 24 year-old mathematics graduate from Kabul University joined the MoF as an intern with the USAID Women in Government Internship Program and was hired as a full-time employee after graduating from the program in August 2012. During her graduation ceremony, she stated, "I'm pleased with the participation in the internship program. The internship program is helpful for young female graduates in developing skills through on-the-job training and obtaining full-time jobs in GIRoA agencies."

In Year 3, interns were placed in 4-6 month internships with...

- De Afghanistan Breshna Sherkat
- Independent Administrative Reform and Civil Service Commission (IARCSC)
- Kabul Medical University
- MAIL
- Ministry of Higher Education (MoHE)
- MoF
- Ministry of Mines (MoM)
- Ministry of Labour, Social Affairs, Martyrs, and Disabled (MoLSAMD)
- MoPH
- Ministry of Urban Development Affairs (MoUDA)
- MoWA
- National Olympic Committee
- Pashtany Bank
- UNICEF

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Women in Government

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campus recruitment activities to identify potential interns.

The Women in Government Internship Program also expanded to Balkh and Herat provinces, building relationships with local government officials and provincial government agencies, placing 20 new interns in each province.

In Year 3, 133 interns successfully graduated from the internship program, with 83% of program graduates finding full-time employment. In addition to providing on-the-job training, the project team organized a series of capacity building workshops for the interns over the course of their internships jobs. These capacity building workshops focused on a variety of topics, including information technology, building self-confidence, Microsoft Office, developing effective presentations, interview skills, developing a Curriculum Vitae, business writing, and gender concepts in Afghanistan.

The project also provided opportunities for the interns to engage in volunteer activities with local youth and vulnerable populations. Groups of interns went to a local school and gave presentations on nutrition and hygiene to students. The volunteerism program is designed to encourage interns to be responsible citizens and contributes to personal development, especially in areas of self-fulfillment, self-confidence, and self-esteem.

During the year, the project worked with the GIZ SLGU project to share lessons learned and implementation strategies and put program advisors in contact with MoVA representatives. The project also signed an agreement with UNICEF to place three interns at the organization and worked with advisors from the USAID Trade and Accession Facilitation for Afghanistan (TAF) project to identify the task-keel needs for the customs office. The program would like to place 20 interns with TAF in Year 4.

Intern Spotlight



Ms. Rita Barezai, a former intern with the MoF, obtained a job as a Government Relations Expert in the Office of the State Minister for Parliamentary Affairs after completing her internship. She stated, "For many Afghan women it is difficult to find jobs, but fortunately through the internship program I have gained job experience and was hired in GIROA."

Conclusions and Lessons Learned

The Women in Government Internship Program was successful in expanding the internship program in Kabul and the provinces while achieving a full-time job placement rate of 83%, well over the target rate. As the internship program continues to expand, the program will need to make sure that strong processes are in place to successfully partner with government agencies, ensure interns have quality internship experiences, and help interns find full-time employment.

As the internship program moves into Year 4, the project will need to make sure that interns continue to engage in meaningful work at their internships.

In Year 3, several interns noted that their internships at times lacked meaningful work. As the program grew, it was increasingly difficult to monitor interns' activities closely. In response to this challenge,



Interns attend regular capacity development workshops conducted by the project as part of the internship program.

the program hired additional staff to supervise and coordinate intern activities. Also, by implementing the "Letter of Agreement" process between the Women in Government team and GIROA host ministries, the program developed a formal framework that outlines the expecta-

By the Numbers:

In year 3, the Women in Government Internship program provided 190 interns opportunities, of which 133 interns graduated and 105 interns obtained full-time jobs within the government and non-government agencies, achieving a job-placement rate of 83%.

tions of intern supervisors, and mandates development of a Terms of Reference (ToR) for all intern positions. This helped to formalize the responsibilities of the interns, supervisors, and the Women in Government team and ensure "buy-in" and commitment from GIROA host ministers and supervisors.

Finding full-time employment for graduated interns will continue to prove challenging, particularly as the internship program continues to expand. Women in Government team leadership built a number of strategic partnerships during Year 3, and several government agencies committed to providing internship positions and full-time positions for internship program participants. Using these key relationships and building new relationships with host ministries will be key to maintaining the remarkable full-time job placement rate that the program currently sees.

To help ensure the sustainability of the internship program, the team will need to identify ways to institutionalize it within Afghan government system. The Women in Government team began negotiations with the IARCSC at the national and provincial levels to support institutionalization. These negotiation revolve around 1) full participation of IARCSC in the target ministry need analysis and identification of vacant permanent positions and 2) official accreditation of the internship certificates granted to interns after completion. The project plans to continue these efforts in Year 4 to get official support from IARCSC.

Project Activities By Regional Command

Economic Growth and Governance Initiative

In Year 3, the project provided targeted support to provincial-level GIRoA bodies and directorates involved in economic governance affairs, with particular attention to regional tax administration and the provincial budgeting process. The combined success of these elements is key to achieving sustainable economic growth. By using local national staff, these key project activities in support of improved public financial management and fiscal sustainability were advanced at the regional level.

Local national staff provided day-to-day tax administration support to the MTOs in Herat, Mazar, Jalalabad, and Kandahar, coordinating regularly with the advisor in Kabul. Provincial budgeting activities in the provinces primarily involved provincial budgeting pilot training workshops, public-financial management training programs, outreach and coordination visits to outlying provinces, and maintaining and establishing working relationships with key provincial stakeholders in the regional hubs. The project had 1-2 provincial officers based in four regional hubs (Nangarhar, Mazar, Herat, Kandahar) responsible for activities implemented in support of the MoF provincial budgeting reform program. The project also expanded the Women in Government Internship Program to the provinces of Balkh and Herat, with provincial intern supervisors managing the daily activities of interns in these locations while coordinating closely with the team in Kabul.

Regional activities are highlighted below and broken down by Regional Command (RC).



Regional Command West: Year 3 in Review

Tax Administration: Throughout Year 3, the project provided support for the Herat MTO. At the end of FY 1390 in March 2012, the Herat MTO reported total revenue collections of 231,054,954 AFN, exceeding the annual collection target of 215,000,000 AFN. In FY 1391, Herat MTO's collection target is 350,000,000 AFN. During the first six months of FY 1391 (April to September 2012) Herat MTO collected 233,084,359 AFN, a 62% increase over the same period in FY 1390 and 66% of the FY 1391 collection target. These amounts indicate the MTO is well on its way to achieving its FY 1391 collection target. Additionally, Herat MTO's tax return filings between April and September 2012 exceeded filings for the same period in 2011 (5,859 in 2012 compared to 2,775 in 2011, a 111% increase). Overall, the project's push to maintain taxpayer education programs paid substantial dividends in taxpayer payment and filing compliance.

Provincial Budgeting: Throughout Year 3, the project's west region provincial budgeting team participated in the Herat Provincial Development Committee meetings and briefed the Herat Provincial Council on provincial budgeting reform activities. The project also regularly met with the West Region USAID PRT, Regional Command, and other international donor representatives to provide updates on provincial budgeting activities. These efforts were particularly useful in improving communication and coordination between MoF, key government officials, and international donors on provincial budgeting reform in the region. The west region team also conducted outreach visits to outlying provinces and met with Herat provincial government officials to update them on the status of provincial budgeting activities. This included a three-day mission in February 2012 to Ghor province to meet with the acting Governor, the Sectoral Director, and the key provincial line directorates involved in the FY 1391 pilot program.

The project supported MoF's effort to build capacity in public financial management for key provincial directorates through workshops conducted in Herat for west region provincial officials. In November 2011,

the project supported MoF to conduct a two-day workshop in Herat for 101 provincial officials from Badghis, Farah, Ghor, Herat, and Nimroz. Following the workshop, the project supported the officials by phone and email to complete their BC-2 forms on time. The project then worked with MoF to launch its annual public financial management training for 56 Badghis officials in Herat in February 2012. The workshops provided a foundation on budgeting, planning, procurement, and the Government's national development strategy to support the completion of provincial budget estimates. In July 2012, the project supported a four-day workshop on completing MoF budget circular forms for annual budget estimates in Herat for 20 west region education provincial officials from Badghis, Ghor, Farah, Nimroz, and Herat. This was part of a series of four regional workshops conducted after the MoE, World Bank, and MoF secured \$17 million in funding for the FY 1391 pilot program. The workshop was the next key step for building capacity of the education directorates in preparing budget estimates for the national budget process.



Women in Government: As part of the provincial expansion effort, the Women in Government Internship Program officially launched in Herat province at a ceremony on September 17, 2012. The team interviewed and hired 20 female graduates who will begin internships with the Governor's Office, Department of Women's Affairs, Herat University, and MAIL in Year 4.

Project Activities by Regional Command

Regional Command North: Year 3 in Review

Tax Administration: Throughout Year 3, the project continued to provide technical assistance to the Mazar MTO. At the end of FY 1390 in March 2012, the Mazar MTO reported total revenue collections of 289,054,965 AFN, far exceeding its target of 182,000,000 AFN. For FY 1391 Mazar's collection target is 250,000,000 AFN. During the first six months of FY 1391 (April to September 2012) Mazar MTO collected 186,705,999, a 78% increase over the same period in 2011. This collection amount represents 74% of Mazar MTO's FY 1391 target. Additionally, Mazar MTO's tax return filings exceeded filings for the same period in 2011 (5,702 in 2012 compared to 4,289 in 2011). By following project advice to advance taxpayer education and outreach, the Mazar MTO was able to see the benefits in increased payment and filings.

Provincial Budgeting: The project supported MoF's effort to build capacity in public financial management for key provincial directorates through trainings conducted in Mazar and Badakhshan for north region provincial officials. In October 2011, the project conducted a three-day MoF BC-1 workshop in Mazar for about 190 provincial officials from Balkh, Jowzjan, Faryab, Samangan, Sari Pul, Kunduz, Baghlan, Takhar, and Badakhshan. The project then supported the MoF to conduct a two-day BC-2 workshop in Mazar in December 2011 for about 200 provincial officials from the same provinces. Following the workshop, the project supported the officials by phone and email as they completed their BC-2 forms.

In February 2012, the project supported MoF to conduct its annual public financial management training in Mazar and Badakhshan for north region provincial officials. The project also supported a four-day

workshop in Mazar in July 2012 for 33 provincial officials on completing BC forms for annual budget estimates. in July 2012.

Throughout the year, the project's north region provincial budgeting team conducted periodic outreach visits to brief key provincial officials on the status of provincial budgeting activities in an effort to improve communications and coordination on provincial budgeting activities. This included visits to Jowzjan in January 2012 to meet with the Jowzjan Education Director, Mustofi, and Governor's Office Sectoral Director; a one-day mission to Samangan in February 2012 to meet with the Sectoral Director and Agriculture Director; and a three-day mission to Faryab in April 2012 to meet the Sectoral Services Director, Mustofi, and pilot line directorate officials.

Women in Government: As part of the provincial expansion efforts for the Women in Government Internship Program, the program officially launched in Balkh province in May 2012. The project interviewed and hired 20 women for internships in Mazar-e-Sharif with the Department of Women's Affairs and Mazar Mustofiat. These women were the first class of interns hired at the provincial level.



Regional Command East: Year 3 in Review

Tax Administration: The project provided technical assistance to Jalalabad MTO throughout Year 3. Jalalabad MTO realized commendable revenue collection figures, although it is not performing at its optimum level. At the end of FY 1390 in March 2012, Jalalabad MTO reported total revenue collections of 141,476,220 AFN, far exceeding its target of 50,000,000 AFN. Jalalabad MTO's collection target for FY 1391 is 185,000,000 AFN. During the first six months of FY 1391 (April to September 2012) Jalalabad MTO collected 141,476,220 AFN, an 86% increase over the same period in FY 1390. This collection amount represents 76% of Jalalabad's MTO FY 1391 collection target. However, Jalalabad has not fully adopted the regime of maintaining proper tax return filing records to support their outstanding payment compliance. For the entire FY 1391 filing period, Jalalabad only reported 1,895 tax return filings. The project advisor continues to work with the MTO Director in an attempt to change this practice.

Provincial Budgeting: The project continued to advance east region provincial budgeting reform activities throughout Year 3. In October 2011, the project supported MoF to conduct a two-day BC-2 workshop in Jalalabad for 195 provincial officials from Kunar, Laghman, Nangarhar, Nuristan, Paktika, Paktya, Logar, Wardak, and Khost provinces. Following the workshop, the project's supported the provincial officials via email and phone to complete their BC-2 forms. In February 2012, the project supported MoF to launch its annual public financial management training for 232 eastern and central provincial officials in Jalalabad. The workshops provided a foundation in budgeting, planning, procurement, and the national development strategy.

The project also conducted a four-day workshop on completing MoF budget circular forms for annual budget estimates in Nangarhar for 36 east and central region education provincial officials from Logar, Wardak, Paktika, Paktya, Khost, Nuristan, Laghman, Kunar, Nangarhar

in July 2012. This was part of a series of four regional workshops conducted after the MoE, World Bank, and MoF secured \$17 million in funding for the FY 1391 pilot program.

Throughout the year, the project's east region provincial budgeting team conducted periodic outreach visits to brief key provincial officials on the status of provincial budgeting activities to improve communications and increase coordination on provincial budgeting reform. This included a one-day mission to Kunar province in February 2012 to brief the Deputy Governor and Sector Director on the status of the FY 1391 pilot program and a visit to Laghman province in April 2012. The east region team also met monthly with the key pilot line directorates to update them on the status of the provincial budgeting pilot program and inform them about upcoming provincial budgeting activities planned in Jalalabad.

Women in Government: As part of the provincial expansion efforts for the Women in Government Internship Program, the project laid the groundwork for the launch of the program in Nangarhar province, scheduled for October 2012 in Jalalabad. In preparation for the launch, the team interviewed and hired 20 female graduates who will begin internships in Year 4 and developed relationships with local government officials and other provincial government organizations to build support for the program.



Project Activities by Regional Command

Regional Command South: Year 3 in Review

Tax Administration: Kandahar MTO presented a year-long challenge that has not yet been resolved. During late 2011 and early 2012 tax officers who were hired did not report for work as they feared for their lives, stalling the installation of tax units until May 2012. Additionally, while the tax officers attended technical training, it was clear that their progress was far behind where it should have been. Reporting processes and procedures have not been established at the MTO. For FY 1391 Kandahar MTO reported revenue collections of 42,035,691 AFN to date; however, the project does not currently have the means to verify these collections to provide appropriate advice.

Provincial Budgeting: In Year 3, the project supported MoF's effort to build capacity in public financial management for key provincial directorates through trainings conducted in Kandahar for south region provincial officials. First, the project supported MoF to conduct a two-day BC-2 workshop in Kandahar in November 2011 for about 33 provincial officials from Kandahar and Zabul. Following the workshop, the project's team supported the provincial officials via email and phone to complete their BC-2 forms for project proposals and submit them on time to line ministries and the MoF for review and approval for the national budget. In February 2012, the project conducted its annual public financial management workshop in Kandahar for 90 Kandahar

and Zabul provincial officials from 14 key line directorates. The workshop provided a foundation in budgeting, planning, procurement, and the national development strategy. The south region provincial budgeting officer also continued to meet periodically with Kandahar provincial line directorate officials and local government officials to provide updates on the status of provincial budgeting activities in an effort to improve communication about upcoming MoF provincial budgeting activities and increase coordination on provincial budgeting reform in targeted provinces. These included outreach meetings in January 2012 with the Kandahar Governor's Office and Mustofi and a meetings in March 2012 with the Kandahar Sectoral Director, Mustofi, and Directors of the pilot line directorates.



Regional Command Southwest: Year 3 in Review

Provincial Budgeting: During Year 3, the project conducted various outreach visits to Helmand and Nimroz in an effort to establish and maintain working relationships with key provincial government officials. In April 2012, the provincial budgeting team travelled to Helmand to conduct an outreach visit and provide an update on the status of the pilot program. The team met with key provincial officials, including the Helmand Governor, Economy Director, and the Directors of the pilot line ministries. The team also conducted a similar outreach visit to Nimroz in April 2012.

The project also supported MoF's effort to build capacity in public financial management for key provincial directorates by providing trainings. In December 2011, the provincial budgeting team supported the MoF to conduct a two-day BC-2 workshop in Kabul for 40 Hel-

mand and Uruzgan provincial officials who were working on preparing the budgets for their directorates. Following the workshop, the project's team supported the provincial officials by phone and email to complete their BC-2 forms for project proposals and submit on time to their line ministries and MoF for review and approval for the national budget.



The project's provincial budgeting officer meets with Helmand Governor Mohammad Gulab Mangal during an April 11, 2012 outreach visit to Helmand province.



The project's Herat provincial budgeting officer briefs four Nimroz provincial council members on provincial budgeting activities.

Year 3 Lessons Learned

While the previous sections provide a detailed look at the conclusions and lessons learned in Year 3 for each workstream, the following is a high-level overview of key lessons learned across the project:

Lesson Learned	Description
Official Counterpart Approval for New or Changed Activities	Prior to implementing new or changed activities, USAID and the project should seek official counterpart approval up front. A lack of documented approval for provincial budget expansion activities led to misunderstanding and the subsequent reversal of the decision to expand provincial budget activities after new resources had been hired.
MoI Leadership Support for Traffic Revenue Reforms	The successful implementation of traffic reforms require MoI support, particularly that of the MoI Deputy Minister of Security and Traffic Director. While they supported the establishment of the working group, MoI Traffic Directorate management is not currently ready or willing to implement these reforms that limit the ability to extract unofficial money.
Counterpart Prioritization of Reform Activities	Successful assistance or training requires that counterparts prioritize project reform activities. The Fiscal Policy workstream was cancelled because the FPU was unable to prioritize EViews training. On the other hand, Mustofi support of tax administration activities demonstrates that key counterpart stakeholders can be successfully informed of the value of reform activities, although this can be a lengthy process.
Commitment of ARD Resources and Budget for Revenue System Repair or Development	Without ARD resource and budget commitment for the maintenance of a revenue system, the repair of existing systems or the development of new systems will not be sustainable. Systems will continue to experience issues that ARD resources are unable to address if the appropriate resources and budget are not committed for the maintenance of RRD or future systems.
Institutionalization of the Women in Government Program	To help ensure the sustainability of the internship program, the team will need to identify ways to institutionalize it within Afghan government system. The Women in Government team began negotiations with the IARCSC at the national and provincial levels to support institutionalization. These negotiations revolve around 1) full participation of IARCSC in the target ministry need analysis and identification of vacant permanent positions and 2) official accreditation of the internship certificates granted to interns after completion. The project plans to continue these efforts in Year 4 to get official support from IARCSC.
Kabul-Based Trainings and Project Training Facility	The project found that it worked well to bring provincial officials to Kabul for trainings instead of having project advisors travel to the provinces for trainings. The project recommends this model for future trainings and plans to establish a project-based training facility. This arrangement will allow the project to avoid security restrictions associated with advisor travel to the provinces.
MoF Roadmap for Program Budget Reform	MoF needs to show strong commitment for program budget reform and develop a roadmap for effective implementation. This includes coordinating with donors and ministries to outline steps towards program-based appropriations, which helps implement NPPs and other priorities of the government.

Acronym List

AFMIS	Afghanistan Financial Management Information System
ANDS	Afghanistan National Development Strategy
ARD	Afghanistan Revenue Department
AusAID	Australian Agency for International Development
BC	Budget Circular
BIT	Budget Implementation Team
CBR	Capacity Building for Results
DG	Director General
DM	Deputy Minister
EGGI	Economic Growth & Governance Initiative
FPU	Fiscal Policy Unit (Ministry of Finance)
FY	Fiscal Year
GIRoA	Government of Islamic Republic of Afghanistan
GIZ	Gesellschaft für Internationale Zusammenarbeit
IARCSC	Independent Administrative Reform and Civil Service Commission
IBC	Internal Budget Committee
IDLG	Independent Directorate for Local Governance
IR	Intermediate Result
IRM	Information Resources Management
LTO	Large Taxpayer Office
MAIL	Ministry of Agriculture, Irrigation, and Livestock
MoE	Ministry of Education
MoF	Ministry of Finance
MoHE	Ministry of Higher Education
Mol	Ministry of Interior
MoLSAMD	Ministry of Labour, Social Affairs, Martyrs, and Disabled
MoM	Ministry of Mines
MoPH	Ministry of Public Health
MoU	Memorandum of Understanding
MoUDA	Ministry of Urban Development Affairs
MoWA	Ministry of Women's Affairs
MRRD	Ministry of Rural Rehabilitation and Development
MTBF	Medium-Term Budgetary Framework
MTO	Medium Taxpayer Office
NPP	National Priority Program
NTR	Non-Tax Revenue

Acronym List, continued

PBU	Provincial Budgeting Unit
PDC	Provincial Development Committee
PDP	Provincial Development Plan
PFP	Procurement and Financial Planning
PMP	Performance Monitoring Plan
PMR	Performance Monitoring and Reporting
PRT	Provincial Reconstruction Team
RC	Regional Command
RRD	Revenue Reconciliation Database
SIGTAS	Standard Integrated Government Tax System
SLGU	Support for Local Governance in Uruzgan
SOE	State-Owned Enterprise
TAFA	Trade and Accession Facilitation for Afghanistan
ToR	Terms of Reference
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US	United States
USAID	United States Agency for International Development
USG	United States Government
WB	World Bank
WIG	Women in Government (Internship Program)



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