



USAID | **AFGHANISTAN**
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Economic Growth & Governance Initiative

Year 3 Workplan

October 1, 2011 – September 30, 2012



Prepared for:

USAID/Afghanistan

Office of Economic Growth

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

November 13, 2011

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

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Executive Summary

On August 15, 2009, USAID awarded Deloitte Consulting a one-year plus four option years task order of US \$92 million to strengthen the institutional capacity of specific entities of the Government of the Islamic Republic of Afghanistan (GIRoA).

EGGI's vision is to enhance GIRoA's capacity to develop and sustain a market environment that supports responsible economic management and fiscal sustainability in the lead up to the 2014 transition. Ultimately, EGGI'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, EGGI's Afghan national and expatriate advisors work primarily with the Ministry of Finance (MoF), the Afghanistan Revenue Department (ARD), and key line ministries and various government agencies, where structural technical assistance promotes both sustainable and transparent policy and decision making. These efforts to promote fiscal sustainability will in turn support the expansion of a vibrant and self-sustaining private sector.

EGGI assistance focuses on several core aspects of public financial management, and delivers key policy support to MoF decision makers in topics of fiscal management and revenue generation. Distinct workstreams within the project execute and help lead key reforms in program budgeting, provincial budgeting, and tax administration. Program budgeting activities include supporting GIRoA budgetary units to submit annual budgets and other vital documents; provincial budgeting activities include rolling out a pilot to build capacity of provincial departments to prepare project proposals for funding under the national core budget; and tax administration activities include supporting the development and administration of Medium and Large Taxpayer Offices (MTO and LTO) to help improve revenue collection throughout the country.

To serve communities outside of Kabul and accelerate fulfillment of basic government services throughout the country, EGGI will continue to work with provincial officials to roll out key workstream activities to all provinces of Afghanistan. In the regional economic hubs of Herat, Mazar, Kandahar, and Jalalabad, EGGI will work through Cooperating Country National (CCN) staff based in these locations to implement reform efforts at the provincial level. Depending on location, EGGI activities in the provinces include supporting and training MTOs and their staff, as well as rolling out the MoF's provincial budgeting reform pilot program.

Women's empowerment is also a key focus for EGGI in Year 3, as it is strongly tied to the achievement of U.S. Government (USG) objectives in Afghanistan. Aiming to build on USG goals related to gender, EGGI will significantly expand the footprint of the successful Women in Government internship program in Year 3. EGGI aims to double the size of the program by offering 60 internships positions over the course of the year, with a goal to graduate 70 interns (10 who began assignments in Year 2) by the end of Year 3 and maintain an 85% job placement rate following graduation from the program.

With the termination of EGGI's Private Sector Development work, EGGI will structure technical activities by workstream, rather than component. The sections that follow outline EGGI's methodology behind crafting the Year 3 Workplan as well as specific activities planned over the course of the year.

Overview of the Year 3 Workplan

EGGI's Year 3 Workplan reflects work planned for the second option year of the EGGI Task Order (from October 1, 2011 to September 30, 2012). The Year 3 Workplan addresses the requirements stated in the Task Order as follows:

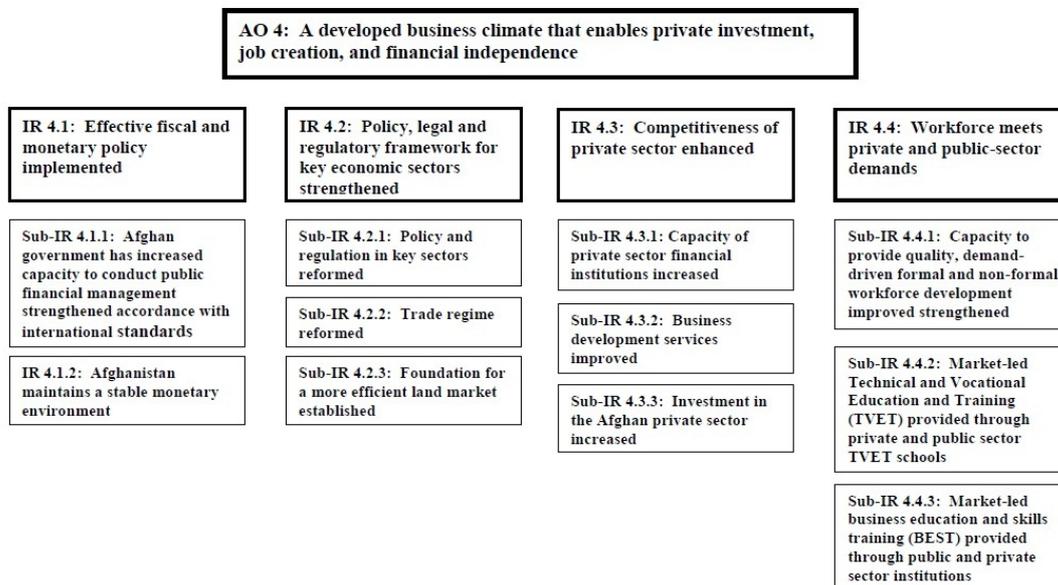
Objective: *“The goal is to strengthen the GIRoA’s capacity to develop and implement economic and regulatory policy and improve the enabling environment for the private sector to flourish.”*

Results: *“The overall expected result through EGGI is that Afghanistan adopts and implements a comprehensive and consistent economic reform program that creates a favorable environment for development of private sector business within a market economy.”*

To achieve these results, EGGI deploys professional technical advisors to work in partnership with many of the key economic and fiscal policy-making institutions throughout GIRoA. Pursuant to the structure of the Task Order, in Year 3 EGGI will deliver technical support focused on fiscal sustainability and public financial management.

With regards to the USAID mission Performance Monitoring Plan (PMP) in Afghanistan, EGGI's project activities tie directly to the Intermediate Results (IRs) that support Activity Objective (AO) 4: *A developed business climate that enables private investment, job creation, and financial independence*. These results and objectives demonstrate the core outcomes that the USG is aiming to achieve and monitor through the Afghanistan mission PMP. The structure of the mission PMP is reflected in the U.S. Mission in Afghanistan Economic Growth Results Framework, shown below:

U.S. MISSION IN AFGHANISTAN ECONOMIC GROWTH RESULTS FRAMEWORK ECONOMIC GROWTH



In Year 3, EGGI's technical assistance focused on economic policy ties most directly to *IR 4.1: Effective fiscal and monetary policy implemented*, and the corresponding Sub-IR, *4.1.1: Afghan government has increased capacity to conduct public financial management strengthened accordance with international standards*. EGGI's tiered structure for mapping to these results and objectives is shown on the following page:



EGGI's programming is consistent with USAID/USG strategic objectives in Afghanistan, which seek to advance Afghanistan's transition to a more stable and productive state through the promotion of effective economic policy and decision making. EGGI advisors will work directly with GIRoA counterparts to achieve the following results in Year 3, broken down by associated workstream:

- **Economic / Fiscal Policy Support:** The Manager and staff of the Fiscal Policy Unit (FPU) in the Ministry of Finance (MoF) are able to use Eviews effectively in their regular work, such as in building simple and complex economic models, in making forecasts, and in producing the Medium Term Fiscal Framework (MTTF).
- **Revenue / Tax Policy Support:** The Ministry of Interior (MoI), in cooperation with the Afghanistan Revenue Department (ARD), has developed and implemented or is implementing plans for the reform of their non-tax revenues – including revenues such as motor-vehicle registration and licensing fees, driver licensing fees, and passport and visa fees – thereby improving revenue collection efficiency and revenue yield while reducing economic distortions.
- **Revenue / Tax Policy Support:** The ARD is adequately resourced for and technically competent in negotiating and administering international tax treaties, has reviewed all eleven of their current tax treaties, and has negotiated or renegotiated at least five tax treaties.
- **Program Budgeting:** Assigned GIRoA budgetary units are able to prepare and execute program budgets independently with minimal donor assistance.
- **Provincial Budgeting:** Pilot line ministries and their provincial departments are able to identify priority projects to be funded in the national budget; overall communication is improved between the line ministries and their provincial departments.
- **Tax Administration:** Sustainable increases in the number of small and medium sized enterprises (SME) that file their taxes, with a proportionate increase in revenues collected. Improved and sustainable revenue collection realized at the Medium Taxpayer Offices (MTOs) in Kabul, Herat, Mazar, Jalalabad and Kandahar, thereby supporting GIRoA to achieve its overall fiscal sustainability goals.
- **Revenue Reconciliation Database (RRD) Web-based system:** The Revenue Reconciliation Database system is converted from its current high dependence upon stand-alone nodal processors to an integrated web-based system that improves reliability and accessibility of information while reducing the need for field-level support.
- **Women in Government (WIG) Internship Program:** The WIG program strengthens and expands economic development opportunities for women by providing work experience in the Afghan government, and increases women's empowerment through active participation in program activities.

Each of these workstreams is discussed comprehensively in the sections that follow. Each workstream will have an overview in narrative form, the key workstream activities for the year, and a description of the supported contract results. This document should be read in conjunction with the **Year 3 Work Breakdown Structure (WBS)**, which provides a detailed matrix of all specific tasks planned for Year 3 that fall within each workstream.

Unified Vision and Cohesive Methodology

The unifying vision of EGGI reflected in this workplan is to continue shifting the center of gravity to GIRoA for all economic policy-making and implementation. To assist in the implementation of all areas of the project, EGGI will utilize the skills of qualified international advisors, CCN staff, and GIRoA and private sector counterparts. This “Afghanization” of EGGI’s technical work, teaming international employees with Afghan staff, will position the Afghans to lead work activities and take leadership roles in reform efforts carried out over subsequent years.

The work streams adhere to the following principles, in keeping with USAID guidance:

- Technical assistance is demand-driven
- EGGI activities are channeled through GIRoA beneficiaries to maximize “buy in” and long-term sustainability
- Results are measurable and time-bound

The main features of the EGGI delivery methodology are the following:

- EGGI work streams are jointly agreed upon with the relevant GIRoA counterpart(s)
- Deliverables are produced in tandem with on-the-job training of the technical counterpart(s), with the view that they will take over the primary responsibility at the earliest reasonable date
- EGGI advisors will foster the sustainability of the reforms or policy initiatives by:
 - Guiding the development of a suitable institutional structure
 - Assisting in the development (or adjustment) of the civil service schedule (Tashkeel) and annual budget (including subnational allocations)
 - Providing training and capacity development in multiple formats (mentoring, workshops, classroom trainings) and encouraging merit-based promotions on the basis of minimum mandatory continuing education (taught and certified by EGGI advisors, to the greatest extent possible)
 - Recommending enhancements that computerize and automate processes to increase efficiency and transparency, and minimize the opportunity for corruption
- EGGI will encourage GIRoA to focus on public policy that legitimizes the private sector, emphasizes contributions and inputs, and includes the private sector directly in all stages of policy formulation

Notable Changes in the Year 3 Workplan

The composition of the EGGI team has developed over time, and has comprised a diverse array of economists, finance specialists, commercial lawyers, development experts and sector specialists assigned to work alongside GIRoA decision makers. EGGI historically provided technical assistance under three primary components: Economic Policy, Financial Sector Development, and Private Sector Development. When the project underwent a “right-sizing” on April 22, 2011, the project scope was revised, with elimination of the project’s support to Da Afghanistan Bank (DAB), as well as other activities that fell under the Financial Sector Development component. Work for the remainder of FY2011 continued under a revised Year 2 Workplan. The key Afghan ministries and institutions where EGGI teams were embedded as part of the revised Year 2 Workplan were primary the Ministry of Finance (MoF) and the Ministry of Commerce and Industries (MoCI). EGGI activities in these ministries fell under both the remaining components of Economic Policy and Private Sector Development.

The Year 3 contains both formatting and substantive changes from the original EGGI Year 2 Workplan and Revised Year 2 Workplan, which have been made at the request of USAID. Firstly, the Year 3 Workplan eliminates EGGI’s component structure. Following the elimination of the Private Sector Development and Financial Sector Development components, EGGI will henceforth be a fiscal project with activities focused on public financial management activities at the MoF. Thus, EGGI will no longer use the component structure and instead utilize workstream identification numbers to distinguish between the project’s activities. A workstream is defined as a specific technical specialty, delivered by one (or more) EGGI advisors to a specific GIRoA beneficiary, consisting of a series of activities and time-bound deliverables. The relevant “results” of EGGI’s work are identified in a column in the aforementioned Year 3 WBS (called “Contract Ref No”), providing continuity with the Year 1 and Year 2 original and revised Workplans, and traceability of activities to the contract Statement of Work (SOW).

The Year 3 Workplan is based on the Year 3 budget and corresponding Level of Effort (LOE) agreed to with USAID. The table that follows below highlights the changes from EGGI's revised Year 2 Workplan, which include:

- Completion/ cessation of two workstreams in Component 1 (Policy Support to the Office of the Minister of Finance, and Support to the Control and Audit Office)
- Termination of EGGI's revised Component 2 ("Business Enabling Environment"¹) and the following associated workstreams:
 - Support to the Afghanistan Commercial Business Registry (ACBR) system
 - Commercial Law support to the MoCI
 - Doing Business Better Initiative (DBBI).

Finally, under the Year 3 Workplan, EGGI has transitioned Gender Mainstreaming from a cross-cutting activity falling under the oversight of EGGI's Project Management Office team, to its own workstream. During Year 3 EGGI will significantly expand its gender work and grow the participants in the Women in Government Internship Program by 50%. Gender activities will be discussed in detail in the sections that follow.

EGGI Year 3 Workstreams

EGGI Year 3 Workstreams	EGGI Revised Year 2 Workstreams Eliminated
<ul style="list-style-type: none"> • Economic and Fiscal Policy Support to the Ministry of Finance • Revenue and Tax Policy • Program Budgeting • Provincial Budgeting • Tax Administration • Revenue Reconciliation Database • Women in Government 	<p>Component 1 – Economic Policy</p> <ul style="list-style-type: none"> • Policy Support to the Office of the Minister of Finance • Control and Audit Office <p>Component 2 – Business Enabling Environment</p> <ul style="list-style-type: none"> • Support to the Afghanistan Central Business Registry • Commercial Law • Doing Business Better Initiative

Blue = Workstream active in Year 3

Red = Workstream eliminated

Challenges in Year 3

EGGI anticipates several challenges moving into Year 3, all of which can potentially have an impact on the workstreams. Challenges that may carry over from Year 2, and affect the project at a macro level, include:

1. Coordinating efforts with the ever-changing USG civilian and military presence (particularly those "embedded" within GIRoA)
2. Coping with changes within the Afghan government itself and managing increased demands to channel resources directly through the GIRoA treasury system
3. Changes in the Afghan leadership that frequently result in shifting GIRoA priorities.

To overcome these challenges, particularly the first, EGGI will work closely with USAID as well as other donors and implementing partners to ensure effective communications on EGGI project

¹ EGGI's former Component 2 (Financial Sector Development) work was terminated per the March 24, 2011 Termination for Convenience notice received from USAID.

initiatives. For instance, within provincial budgeting, provincial trainings in Year 2 were coordinated and held in conjunction with Provincial Reconstruction Teams (PRTs) and Regional Commands (RCs). The provincial budgeting team will continue to try to leverage these relationships as future provincial trainings are held. To manage demands on limited resources, EGGI will prioritize assistance efforts and coordinate closely with GIRoA counterparts to ensure that project work remains focused on key priorities and critical areas within the scope of the Year 3 Workplan.

To help respond to oft-shifting GIRoA priorities and also to continue trends in building capacity and empowering Afghan counterparts, EGGI will promote broad-based stakeholder engagement to ensure relevant parties and populations are educated on key reform initiatives and are able to provide feedback. This enables stakeholders to help the most beneficial policies gain traction and not be taken off track by oscillating GIRoA priorities. In all its activities, EGGI will continue to implement a strategy of securing participation of a broad stakeholder community in policy deliberation, project design and implementation, and access to assistance and services, whether sourced from government, donor agencies, or private sector organizations.

Human resource issues, including recruitment, staff development, and retention for a broad range of operational and management positions, also continue to be high-level challenges for implementing partners in Afghanistan given the limited number of qualified Afghan professionals. To respond to this challenge, EGGI has prioritized holding programs for training and skills development of both employees and stakeholders, and has emphasized the need to build local training capacity to maintain a continual flow of well-trained Afghans for both public and private sector service. EGGI has also put these priorities into practice by handing off key leadership positions to Afghans within its own project functions, including Human Resources, Finance, Information Communications & Technology (ICT), Procurement, and the Year 2 “Business Enabling Environment” Component.

Gender diversity also continues to be a challenge in Afghanistan, both from a human resources perspective and as a key issue that EGGI wishes to promote. To help advance gender initiatives consistent with USG goals in Afghanistan, EGGI will significantly expand the Women in Government (WIG) Internship Program in Year 3 to provide more opportunities to Afghan women in gain work experience in GIRoA. However, developing women’s capacity through the WIG program will require significant effort and attention from the EGGI team, as well as frequent monitoring to ensure interns have valuable experiences in GIRoA ministries. Expansion of the program will require dedicated oversight by project management in the next few months of Year 3 as the program is formalized, which may pose a challenge given existing resource constraints. EGGI will work towards overcoming these challenges by instituting a needs assessment survey with potential GIRoA supervisors, developing strong relationships with the GIRoA supervisors, and developing capacity of local staff to manage these relationships and the entire program with less expatriate advisor oversight. Addressing these challenges through empowering EGGI local national staff with greater experience and responsibility is also consistent with USG goals of promoting “Afghanization” by giving more management oversight duties to Afghan staff.

Reporting progress against the WBS

EGGI will continue to submit monthly updates to the Year 3 WBS to USAID along with the project’s required Monthly Reports, helping track progress against plans and ensuring that core activities are completed in the agreed-upon timelines. The “Status” column in the WBS document will facilitate the reporting of progress against plans at the task level. The status column will be updated on a monthly basis using a red-yellow-green color coding system indicating the status of each activity. Explanations of status, where required, will be provided in the “Comments” column. The “Assigned Resource” column that is completed for each task will track the accountable person for delivery of EGGI’s work as specified in the WBS. The “Counterpart Ministry” column also designates the GIRoA entity that is the beneficiary of that task. These updates will help ensure that Year 3 tasks are completed in a way that is prompt, clearly resourced, and creates a work result that assists a specific GIRoA entity.

Year 3 Workstreams

For Year 3 of EGGI, the project will be organized into a solely workstream-based structure, with each workstream delivering technical specialties to a specific GIRoA counterpart or program. The workstreams will all fall under the broad scope of a project that is now primarily fiscal in nature with activities focused on public financial management, in addition to a sub-focus on gender empowerment. Despite the adjusted project structure, the maintenance of EGGI workstream staff and leadership will ensure continuity with progress made in Years 1 and 2, and enable EGGI to keep building on the project's previous successes. Each Year 3 workstream is described below, including a narrative overview, the key workstream activities for the year, and a description of the supported contract results.

Workstream 1: Support to Ministry of Finance - Policy Advice and Capacity-Building in Economic and Fiscal Policy

Sound fiscal management is an essential foundation for good economic governance. Robust analysis of spending and revenue collection decisions in turn is an essential foundation for good fiscal management. EGGI will support the development of analytical capacity in the MoF's Fiscal Policy Unit (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 development of a strong and competent FPU will help MoF leadership improve public spending decisions, enhance domestic revenue projections, and develop tax policy options.

The broad objectives of the FPU are to improve the coordination, effectiveness and transparency of the budget process, and to ensure that the budget expenditure program over time is comprehensive and policy-based. The FPU achieves these objectives through analyzing revenues and expenditures, publishing Quarterly Fiscal Bulletins and Annual Fiscal Reports, and developing the Medium Term Fiscal Framework (MTFF) that provides projections of budget expenditure capacity over time. FPU staff are currently engaged in each of these areas, but additional training and support is needed. One area where the FPU has not been effective to date is that of forward fiscal planning, as the present MTFF model lacks the flexibility to support scenario analysis, where the impact of numerous differing assumptions about parameters such as wage growth, inflation and the level of development spending can be projected into the medium and longer term, along with the fiscal balance and financing needs.

EGGI advisors will increase FPU staff capacity to perform such analysis through training them in the use of the **EViews software package**, thereby enabling FPU staff to build better micro-economic and macro-economic models to produce more reliable forecasts of revenue and expenditures, and to use an EViews model for the MTFF that facilitates scenario analysis and longer-term fiscal projections.

Key activities for Year 3 include:

- **Activity 1:** Assess current level of capability of FPU staff in data analysis, modeling and forecasting through discussion with the Head of FPU and review of current work output.
- **Activity 2:** Develop program outline for the Eviews training and agree to timetable and content with the Head of FPU.
- **Activity 3:** Develop training material for the first block of Eviews training, to enable FPU staff to conduct simple model building; present the training in classroom and workshop format, and assess progress through individual and group assignments.
- **Activity 4:** Develop training material for the second block of Eviews training, to enable FPU staff to conduct model building and forecasting with specific data challenges; present the training in classroom and workshop format, and assess progress through individual and group assignments.
- **Activity 5:** Develop training material for the third block of Eviews training, to enable FPU staff to conduct complex, multi-equation model building; present the training in classroom and workshop format, and assess progress through individual and group assignments.
- **Activity 6:** Develop training material for fourth block of Eviews training, to enable FPU staff to use programs to determine model development, solution and outputs, with particular reference to the MTFF model; present the training in classroom and workshop format, and assess progress through individual and group assignments.

Activity 7: Review progress with Head of FPU, and provide informal on-the-job support for the use of Eviews by FPU staff.

Contract Results Supported

- *MoF's ability to provide quality quantitative support and analysis is strengthened for critical MoF functions, such as further development of the medium-term expenditure framework (MTEF), macroeconomic projections, revenue and expenditure forecasts, and policy analysis and simulations.*

Workstream 2: Support to Ministry of Finance - Policy Advice and Capacity Building in Revenue and Tax Policy

Non-Tax Revenue Reforms

The MoF is leading economic and fiscal reforms in Afghanistan, including revenue reforms. The Afghanistan Revenue Department (ARD) is one of the two primary revenue agencies in Afghanistan (the other being the Afghanistan Customs Department, or ACD), and both lie within the MoF. Revenues from both of these agencies have been growing at a rate of more than 20% per annum for the past two years. The MoF itself and other ministries also collect a significant proportion of GIRoA revenues, designated as non-tax revenues. In order to sustain revenue growth while reducing economic distortions, both administrative reforms and policy reforms need to be instituted. The design and implementation of these reforms is complex and such work is already in progress. During Year 3, EGGI will work with the Non-Tax Revenue Director of the ARD, staff of that directorate, and senior representatives of the Ministry of Interior (MoI) to review the MoI's non-tax revenue streams, which include motor vehicle registration and licensing fees, driver licensing fees, and fees for passports and visas. In conjunction with those counterparts, plans will be developed for the reform of the processes that support those revenue streams in order to improve efficiency and raise levels of compliance. Implementation of those plans will commence during Year 3, although it is recognized that some will require more than a year to complete. Where feasible, the more complex reforms will be tested in pilot environments within the project timeframe.

Key activities for Year 3 include:

- **Activity 1:** Review prior studies of MoI non-tax revenues, and determine which revenue streams are of economic importance (by size and impact) and which are likely to be the best candidates for reform.
- **Activity 2:** With the assistance of the ARD, engage with senior level counterparts at the MoI to develop an understanding of their capacity for managing reforms, and agree on areas and revenues for reform.
- **Activity 3:** In conjunction with MoI counterparts, develop an outline plan for each area of revenue reform, including the assignment of MoI senior staff to manage the reform process, and a timetable for developing, testing, review and implementation of the proposed reforms.
- **Activity 4:** For each main area of reforms, develop detailed plans for reform of each revenue stream, in conjunction with the relevant MoI reform management team.
- **Activity 5:** For each proposed reform, proceed with the implementation of the reform program, under the control of the MoI reform management team.

Contract Results Supported

- *Improved fiscal policy and administration so that non-tax revenues are rationalized, revenue collection is increased to cover the operating budget, the revenue raising and spending authorities of the provincial and local governments are clarified, and an analysis capability is established in the MoF.*

Tax Treaty Negotiation

As external trade and foreign investment increase in Afghanistan, there will be a need to negotiate tax treaties with neighboring countries and the home jurisdictions of major investment providers. The international tax department of the ARD has only one employee, its Director, at present. Afghanistan currently has eleven existing tax treaties with other countries. During Year 3, EGGI will assist the Director in staffing the directorate, and provide advice on negotiating and administering Afghanistan's existing and other international tax treaties. The objective is to review all of the current treaties, renegotiate as deemed necessary, and to begin to negotiate tax treaties with other trading and investment countries.²

Key activities for Year 3 include:

- **Activity 1:** In conjunction with the ARD Director of Policy and International Taxation, review the status of existing tax treaties and which of those treaties are proposed for renegotiation, as well as other countries with which treaty negotiations are proposed.
- **Activity 2:** In conjunction with the ARD Director of Policy and International Taxation, develop a schedule for a review of existing tax treaties that are proposed for renegotiation, for research on the tax laws of those and other countries for which treaty negotiations are proposed, and for the preparation of documentation needed in advance of treaty negotiations.
- **Activity 3:** In conjunction with the ARD Director of Policy and International Taxation, implement the plan so that tax treaties are renewed, renegotiated, and negotiated as scheduled during the year.
- **Activity 4:** Work with the ARD Director of Policy and International Taxation to staff the Directorate with employees technically competent in negotiating and administering international tax treaties.

Contract Results Supported

- *MoF's ability to provide quality quantitative support and analysis is strengthened for critical MoF functions, such as further development of the medium-term expenditure framework (MTEF), macroeconomic projections, revenue and expenditure forecasts, and policy analysis and simulations.*

Workstream 3: Program Budgeting Reform

Program budgeting is a key public financial management reform for GIRoA to better link its strategic objectives with the annual budget, improve transparency of the budget process, and help ensure that line ministries are accountable for funded services and activities. GIRoA has been implementing program budgeting reform gradually across the government with assistance from EGGI (and formerly through the USAID Capacity Development Program) since 2007.

For Year 3, EGGI will continue assisting GIRoA to implement program budgeting reform, with national advisors embedded in 38 budgetary units providing ongoing technical assistance, coaching, and mentoring to build capacity of civil servants in program budgeting. EGGI works closely with the MoF to implement program budgeting reform in assigned budgetary units. This primarily involves assisting budgetary units to develop program budget requests for Cabinet and Parliament approval, prepare annual procurement and financial plans to improve execution of the approved budget, and submit quarterly performance monitoring and reports to MoF to measure budget performance and results. EGGI will also support the MoF to deliver a comprehensive program budgeting reform training for about 400 civil servants from all budgetary units in 2012.

For the 1390 budget (2011-12), MoF prompted budgetary units to develop procurement and financial plans to improve planning for future procurements during budget execution. Under this MoF initiative, all budgetary units submit a detailed breakdown of their operating and development budget

² Note that very few countries have the capacity to negotiate or renegotiate more than 4-5 tax treaties per year.

by month and by program. Budgetary units also provide an approved budget breakdown by province to show planned expenditures and procurements at the subnational level. EGGI's program budget team assisted the assigned budgetary units to prepare procurement and financial plans for the 1390 budget, and to update the procurement and financial plans to make required adjustments as the budget is executed. EGGI will continue assistance in procurement and financial planning to assigned budgetary units for execution of the 1391 budget in Year 3.

A key objective of program budgeting is to facilitate the allocation of budgetary resources in accordance with stated programs and planned outputs. As such, MoF also initiated a pilot for 19 budgetary units for year 1390 to report quarterly on budget execution and performance indicators (by subprogram), and to provide a brief explanation of variances from the approved budget. The ministry performance reports are presented to the Budget Committee, Cabinet and Parliament. Success in achieving program objectives is then considered when the MoF and Budget Committees are reviewing line ministry / agency budget submissions for approval. In Year 2, EGGI's Program Budget Team assisted pilot budgetary units to prepare performance and monitoring reports on a quarterly basis to report progress on execution of the 1390 budget. For Year 3, EGGI will continue assisting pilot line ministries with quarterly performance monitoring reporting for 1391. EGGI will also work with the MoF to prepare at least 8-10 line ministries to "graduate" from EGGI technical assistance, meaning they are capable of preparing budget submissions independently.

Key activities for Year 3 include:

- **Activity 1:** Provide ongoing mentoring and coaching support to 38 assigned budgetary units to effectively prepare their program budgets for FY 1391/2 in line with guidance issued by MoF.
- **Activity 2:** Assist at least 38 assigned units to provide Budget Circular (BC-1) and BC-2 submissions for the FY 1392 program budgets.
- **Activity 4:** Support the MoF's budget department to deliver comprehensive program budget trainings for all budgetary units in preparation for the 1392 budget process.
- **Activity 5:** Provide ongoing mentoring and coaching support to at least 38 assigned budgetary units to prepare their procurement & financial plans for FY 1391 in line with guidance issued by MoF.
- **Activity 6:** Provide ongoing mentoring and coaching support to pilot budgetary units to prepare their quarterly performance reports for FY 1391 in line with guidance issued by MoF.
- **Activity 7:** Assist MoF to graduate at least 8 – 10 Ministries deemed capable of preparing their program budget requests with minimal or no technical assistance.

Contract Results Supported

- *Afghanistan's budget reform plan implemented through establishment of program budgeting and provincial budgeting, and improved budget management, planning, procurement, and execution.*

Workstream 4: Provincial Budgeting Reform

The MoF launched provincial budgeting reform in 2006/7 to increase provincial input into the budget planning process in coordination with three line ministries (MAIL, MoED, MRRD) and three provinces (Herat, Bamyan, and Balkh). This was achieved through the work of a MoF provincial budgeting unit based in Kabul. The MoF expanded this initiative in 2009/10 through provincial budgeting training for select provinces. In May 2010, the MoF requested EGGI assistance to establish five regional training hubs in Mazar, Jalalabad, Herat, Kandahar, and Helmand. These hubs, staffed with Afghan budget experts with international advisor support and oversight, built capacity of key provincial directorates in budget planning and project implementation, and helped improve coordination of budgeting activities among key GIRoA and donor stakeholders involved in provincial reconstruction and development.

During Year 2, EGGI supported the MoF to rollout a new provincial budgeting approach. Under this approach, select provincial line directorates develop project proposals to address local priorities in line with national priority programs through a pilot program with four line ministries (MoED, MAIL, MRRD, MoPH) and the IDLG. Near the end of Year 2, EGGI supported the pilot Line Directorates to complete project proposals for their line ministry review for the 1391 national budget process. For Year 3, the EGGI provincial budgeting team will support the MoF to expand the pilot to up to ten line ministries for

the 1392 national budget process. EGGI will support the MoF to conduct three-day regional workshops to train pilot line directorates in provincial budgeting, and then provide follow up assistance in developing budget proposals in line with MoF budget preparation guidance. Due to limited USAID funding, the regional workshops will be funded by another donor to be determined by MoF. EGGI will also strengthen its regional coordination of the MoF provincial budgeting initiative by appointing two national staff as regional coordinators assigned to the 1) North and West; and 2) Central, East and the South.

Key activities for Year 3 include:

- **Activity 1:** Support MoF to expand the provincial budgeting pilot in budget preparation to up to ten line ministries and their provincial directorates to ensure that local priorities are better reflected in the 1392 national budget.
- **Activity 2:** Support MoF rollout of capacity development training in budget formulation, budget execution, and procurement procedures for select provinces.
- **Activity 3:** Train international counterparts working with pilot ministries in the provinces in GIRoA's new Provincial Budgeting process to assure that all efforts by internationals support GIRoA's new budget process in coordination with MoF and USAID contacts at the regional platforms and Provincial Reconstruction Teams (PRTs).

Contract Results Supported

- *Afghanistan's budget reform plan implemented through establishment of program budgeting and provincial budgeting, and improved budget management, planning, procurement, and execution.*

Workstream 5: Provincial Tax Administration

Effective revenue mobilization is critical to achieving fiscal sustainability and financing Afghanistan's significant reconstruction and development priorities. Domestic revenues have increased significantly since 2002, and they must continue to grow in Afghanistan in order to cover operating costs of core GIRoA operations and to better deliver key social services to its citizens. In January 2010, EGGI commenced assistance toward establishing the Herat Medium Taxpayer Office (MTO). Throughout 2010 (EGGI Year 1), EGGI supported the installation of six units (taxpayer service center, case management, companies group, taxpayer identification, accounting, and audit) and launched on-the-job training for MTO tax officers and management training for the MTO Director and managers. With EGGI's support, the Herat MTO was able to exceed the revenue target of 100 million AFN for year 1389 (2010) that the Afghanistan Revenue Department had established, collecting nearly 150 million AFN and demonstrating the effectiveness of EGGI's assistance.

Following the successful roll-out of assistance at the MTO in Herat, EGGI launched assistance to the MTO in Mazar in September 2010. EGGI focused on improving the technical capacity of the staff by providing extensive training in related technical fields. Additionally, EGGI re-installed the Taxpayer Service Center that was abandoned earlier in 2010. Mazar's collection target for 1389 was 60 million ANF. Through EGGI assistance, at the close of year 1389, Mazar had also achieved and exceeded its revenue target collecting over 129 million AFN.

In Year 2, EGGI provided further technical assistance and capacity building to support operations at the MTOs in the three revenue generating provinces of Herat, Mazar and Jalalabad. Taxpayer service, audit, and taxpayer outreach programs were critical aspects of the MTO development program, as many taxpayers in Afghanistan remain non-compliant and businesses need to be informed of the new procedures for engagement with the MTO in these provinces.

In Year 3, EGGI will continue to provide technical assistance and provide capacity building to support operations at the MTOs in Kabul, Herat, Mazar, Jalalabad, and Kandahar. Similarly, EGGI will provide technical assistance to support operations at the Large Taxpayer Offices (LTOs) in these same provinces. EGGI will also provide support in delivering basic and functional management training for all Afghanistan's LTO and MTO managers in Kabul and provinces where LTO and MTO offices are located. Well-functioning taxpayer service including taxpayer outreach programs, audit,

and enforcement will be critical factors of LTO and MTO development programs as these form driving elements of a successful tax administration.

Key activities for Year 3 include:

- **Activity 1:** Support ongoing operations at Medium Taxpayer Offices (MTO) in Herat, Mazar, and Jalalabad.
- **Activity 2:** Support ongoing operations at Large Taxpayer Offices (LTO) in Herat, Mazar, and Jalalabad.
- **Activity 3:** Provide on-the-job training and “train-the-trainer” support within MTO units in Herat, Mazar, Jalalabad and Kandahar.
- **Activity 4:** Provide on-the-job and “train-the-trainer” support within LTO units in Herat, Mazar, and Jalalabad.
- **Activity 5:** Provide basic and functional management training for all ARD tax office managers in Kabul and provinces of Herat, Mazar, and Jalalabad.

Contract Results Supported

- *Tax administration and revenue collection in the MoF Revenue Department provincial Medium and Large Taxpayer Offices improved in accordance with international best practices with a focus on improved taxpayer services and public education, transparency, IT systems, and draft laws, regulations and procedures needed to bring tax policy and implementation into line with leading international practice.*

Workstream 6: Revenue Reconciliation Database (RRD) Web-based system

A key component of implementing fiscal reform in Afghanistan is improving how revenues and expenditures are tracked and accounted for throughout the country. With that goal in mind, the MoF created the Revenue Reconciliation Databases (RRD) with EGGI support to track and account for revenues collected by GIRoA entities. EGGI’s implementation of the RRD converted a previously manual process for reconciling revenue data into a system of databases; however, these databases were installed at different regional locations and are not rationalized or automated via an easily operable process. The geographic dispersion of the database locations also makes continued maintenance difficult. When EGGI’s RRD workstream was ended in March 2011, EGGI maintenance of the RRD ended as well; because GIRoA lacked the necessary resources to properly maintain the databases in different regions, the regional RRDs began breaking down, causing gaps in revenue reporting.

USAID, the MoF, and EGGI met again later in spring 2011 to assess problems with the RRD and identify causes of reporting gaps. The group identified that the key issues were with the RRD’s lack of a truly real-time, automated framework for revenue reporting, and the inability to provide maintenance for locations outside of Kabul given the MoF’s lack of resources. The MoF determined that a preferred solution would be a web-based system that would be constantly accessible and automate the collection of data, creating a truly real-time revenue reporting system. The web-based functionality would also obviate many of the issues related to RRD maintenance. USAID and EGGI later confirmed in fall 2011 that the EGGI team would lead supervision of development efforts for the new web-based RRD system.

In Year 3, EGGI will develop and deliver this new system to the MoF in order to fix existing issues and dramatically improve the functionality and reliability of the RRD system. The web-based system will be able to rapidly run key reports including the M29 monthly revenue report, M27 weekly report, Afghanistan Financial Management Information System (AFMIS) reports, and Katya and Baqyat reports.³ In support of the new system, EGGI will also build the MoF’s capacity at the administrative level to maintain and operate the web-based system, and maximize the benefits delivered by the

³ The M29 and M27 are monthly and weekly reports, respectively, that track all GIRoA revenue from non-tax sources like tariffs, renewal fees, and licenses. AFMIS reports are the RRD’s revenue inputs to AFMIS (which tracks government transactions); these reports feed into AFMIS on a daily basis. The Baqyat report shows incoming revenues that have not been paid (e.g. a tariff issued that has not gotten a receipt of payment), and the Katya report reconciles revenues that have been paid and those that have not (baqyat).

system. Training will occur for MoF administrators, technical staff, and management (also including those in USAID). EGGI will also help navigate decision-making processes on options for server hosting (including location), security protocols, and maintenance. The result of work in Year 3 will be a USAID/EGGI-delivered product that updates the existing deficient RRD system to create a fully automated GIRoA revenue system, applicable at line ministries and all provinces, together with a real-time reporting facility.

Key activities for Year 3 include:

- **Activity 1:** Review and document existing RRD activities and components to be automated by web-based system.
- **Activity 2:** Deliver prototype of web-based system to stakeholders (USAID, MoF).
- **Activity 3:** Conduct functionality and design tests to ensure new system meets requirements.
- **Activity 4:** Create support documents and deliver training for the new web-based system to users at multiple levels.
- **Activity 5:** Complete development and hand off system to the MoF.

Contract Results Supported

- *Improved fiscal policy and administration so that non-tax revenues are rationalized, revenue collection is increased to cover the operating budget, the revenue raising and spending authorities of the provincial and local governments are clarified, an analysis capability is established in the MoF.*

Workstream 7: Women in Government Internship Program

Women's empowerment is strongly linked to economic growth and the overall achievement of USG objectives in Afghanistan, and as such continues to be a key priority of the EGGI project. In Afghanistan as in much of the developing world, gender equality is undermined by historical imbalances in political participation and access to resources and rights. Women are still widely under-represented in decision-making at all levels from the household to the public sphere. Over the life of the project, EGGI has worked toward developing gender programming consistent with USG goals to ensure that women are included in the development process. In February 2010, EGGI launched the Women in Government (WIG) internship program to facilitate the advancement of women within EGGI's GIRoA counterpart organizations. The WIG program emphasizes assistance to build women's capacity to participate fully in Afghan society through providing opportunities historically unavailable to women, and targeting solutions to address inequities by giving women a chance to participate in GIRoA activities. The program also includes a monthly stipend that helps the women to start learning about financial management and independence.

Since the inception of the WIG program, EGGI has graduated 33 interns, meaning they have successfully completed the program and internship. To date, EGGI has had an 85% success rate in placing interns in full-time jobs.⁴ During the final quarter of Year 2, 10 more interns began assignments with EGGI counterpart organizations. By the end of Year 3, EGGI aims to graduate and additional 70 interns from the program and maintain and/or improve the 85% job placement rate following graduation from the program. To improve this figure, EGGI will develop more aggressive and innovative ways to support the interns in their job search as the end of their internships near.

During Year 3, EGGI will significantly expand the WIG program to provide internships to 60 recent graduates from local universities in Kabul. In the first quarter, EGGI will finalize programmatic design, formalize the internship program business model, and hire the first class of Year 3 interns. Towards the end of the first quarter or early in the second quarter, EGGI plans to work with USAID to hold a formal launch event introducing the expanded WIG program. Success stories and press releases will be developed to generate interest and share knowledge about EGGI's gender initiatives.

Formalizing the expanded business model of the WIG program is important to ensure a stable and professionally run program. As part of the formalization process, EGGI will develop a "Women in

⁴ This figure includes interns who were hired or are currently in the hiring process with both GIRoA and the private sector.

Government Toolkit” for USAID comprising EGGI-developed documents and tools needed to administer the program. EGGI will also conduct a GIRoA needs assessment in the beginning of the year to gather information from a range of GIRoA officials on what is known about EGGI’s program. The survey will serve as a helpful tool to identify GIRoA’s needs and to ensure that positions align with EGGI technical assistance areas. EGGI will implement the survey bi-annually with GIRoA institutions and local universities to establish an open feedback loop throughout the year, ensure the needs of the ministries are being met, and to identify potential new internship areas. Feedback from these surveys will be summarized in a report for USAID.

EGGI will also reach out to new GIRoA institutions where EGGI has not historically had internships, including the Afghanistan Revenue Department (ARD), the MoF Budget Reform Implementation Unit, and the Provincial Budgeting Unit. Over the course of Year 3, EGGI will offer six-month internships to 60 new interns through three classes of 15-30 positions each. To build the interns’ skills and enable them to succeed in their positions, EGGI will offer three formal capacity building workshops for each intern class. In addition to formalized trainings, EGGI is instituting a weekly meeting and informal working group session with the interns on Thursday afternoons, which will provide mini-lessons on computer skills, office administration, and business, writing, and presentation skills.

Finally, EGGI will incorporate volunteerism activities for interns and place more of an emphasis on networking and mentorship. EGGI will create opportunities for current interns to work with local youth in grade school and high school levels to share their experiences pursuing higher education and entering the job market. Interns will also be encouraged to work with vulnerable populations and serve as mentors to provide advice and guidance to younger students. EGGI will also place an emphasis on networking and teach the interns about this important professional concept. EGGI will offer quarterly networking events for current and former interns, as well as launch social networking tools that will allow interns to stay connected with each other following graduation from their internships. Through these avenues, EGGI will encourage graduated interns to stay connected to EGGI’s internship program building the networks of both current and former interns alike.

- **Activity 1:** Provide internships to 60 females in GIRoA institutions.
- **Activity 2:** Hire and place first round of 15 interns - Group 1.
- **Activity 3:** Hire and place second round of 15 interns - Group 2.
- **Activity 4:** Hire and place first round of 15 interns - Group 3.
- **Activity 5:** Conduct Monitoring and Evaluation of Interns.
- **Activity 6:** Conduct formal workshops to facilitate capacity building for interns and supplement on-the-job training
- **Activity 7:** Conduct regular weekly "mini-workshops" and working group sessions to facilitate capacity building, interns and supplement on-the-job training, and facilitate networking
- **Activity 8:** Support interns to identify full-time jobs following graduation.
- **Activity 9:** Promote volunteerism with interns by reaching out to youth and disadvantaged populations
- **Activity 10:** Implement formal mentorship program for interns
- **Activity 11:** Conduct outreach and networking with media

Contract Results Supported

- *Gender Considerations: The Contractor is required to ensure that gender issues are suitably addressed in various program components...To the greatest extent possible, the Contractor will seek to encourage men and women of all ages to be involved in all aspects of this program, including participation and leadership in meetings, working groups, training and counseling activities, exchanges and delegations.*

Year 3 Key Deliverables / Milestones by Reporting Period

Below are key deliverables completed throughout Year 3 for each workstream. Note that certain workstreams (e.g. those related to policy) may have fewer deliverables due to having comparatively fewer concrete outputs.

Period 1 (October 2011 through December 2011):

- **Economic / Fiscal Policy:** Members of the Fiscal Policy Unit (FPU) are able to use Eviews software for simple data analysis and modeling.
- **Revenue / Tax Policy:** The ARD and EGGI agree on a specific group of non-tax revenue for review and potential reform, and ARD and EGGI engage with a specific ministry or group of ministries to commence the review and reform of those revenues.
- **Revenue / Tax Policy:** The ARD identifies which existing tax treaties are to be reviewed, and establish a timetable for the review and renegotiation of these treaties as appropriate
- **Provincial Budgeting:** Provincial line directorates for the four pilot line ministries and the IDLG complete BC-1 submissions under the 1391 provincial budgeting pilot program.
- **Program Budgeting:** Assigned budgetary units complete BC-2 submissions for the 1392 national budget process.
- **Program Budgeting:** Assigned budgetary units complete third quarter performance monitoring reports for 1390 budget.
- **Tax Administration:** Trainings on audit practices, basic management, functional management, and field compliance techniques are delivered to MTO/LTO tax officers and managers from Jalalabad, Mazar, Kandahar, and Herat.
- **Women in Government:** Internship program business model is formalized.
- **Women in Government:** Program survey with GIROA institutions is administered to identify needs and additional potential internship assignments. Survey with Kabul University is administered to determine ways to strengthen partnership.

Period 2 (January 2012 through March 2012):

- **Economic / Fiscal Policy:** Members of the Fiscal Policy Unit (FPU) are able to use Eviews software to recognize and compensate for common sources of data variance in building models and generating forecasts.
- **Revenue / Tax Policy:** The review of assigned non-tax revenue streams is completed, the potential for revenue reform is agreed to between ARD and other responsible ministries, support for reforms is obtained, and formal action plans (including timetables and progress measures) for revenue reform are drafted.
- **Revenue / Tax Policy:** The ARD reviews at least five existing tax treaties, completes negotiations on at least one tax treaty, and commences negotiations on other tax treaties.
- **Program / Provincial Budgeting:** Lessons Learned workshop facilitates assessment of program budgeting and provincial budgeting reform activities with USAID and MoF participation.
- **Program Budgeting:** Five to six line ministries with at least four years of program budgeting reform implementation experience are graduated.
- **Program Budgeting:** Assigned budgetary units complete fourth quarter performance monitoring reports for 1390 budget.
- **Tax Administration:** Trainings on audit practices, basic management, functional management, and field compliance techniques are delivered to MTO/LTO tax officers and managers from Herat, Jalalabad, Mazar, and Kandahar.
- **Women in Government:** First program Volunteer Outreach program is held, connecting current interns with opportunities to provide career and academic guidance to youth and vulnerable populations.
- **Women in Government:** First internship program networking event is held for current and former interns.

Period 3 (April 2012 through June 2012):

- **Economic / Fiscal Policy:** Members of the Fiscal Policy Unit (FPU) are able use Eviews software to build, test and validate complex multi-equation models.
- **Revenue / Tax Policy:** Action plans for the reform of selected revenue streams including administrative changes are implemented, with time required for completion dependent upon the complexity of the operational and regulatory environment.
- **Revenue / Tax Policy:** The ARD reviews at least five existing tax treaties, completes negotiations on at least two tax treaties, and commences or continues negotiations on other tax treaties.
- **Program Budgeting:** Program budgeting briefings are successfully conducted for assigned budgetary units on 1392 approved budgets.
- **Provincial Budgeting:** National provincial budgeting policy symposium is held to kickoff second provincial budgeting pilot program.
- **Program Budgeting:** Completed BC-1 submissions (1392 budget) and Procurement and Financial Plans (1391 budget) are submitted to MoF.
- **Tax Administration:** Trainings on audit practices, basic management, functional management, and field compliance techniques are delivered to MTO/LTO tax officers and managers from Jalalabad, Mazar, Kandahar, and Herat.
- **Women in Government:** Internship Group 1 interns successfully graduate the program.

Period 4 (July 2012 through September 2012):

- **Economic / Fiscal Policy:** Members of the Fiscal Policy Unit (FPU) are able to use Eviews software to facilitate data analysis, forecasting and modeling, validation of models, and facilitation complex model building and long term forecasting.
- **Revenue / Tax Policy:** Action plans for revenue stream reform are continued, with at least some revenue reforms completed, and others still continuing progress against established measures.
- **Revenue / Tax Policy:** The ARD identifies at least two new parties for tax treaty negotiation, completes negotiations on at least two tax treaties, and commences or continues negotiations on other tax treaties.
- **Program Budgeting:** Annual program budgeting training program is conducted for all assigned budgetary units in preparation for 1392 national budget process.
- **Program Budgeting:** 1391 First Quarter Performance Monitoring Reports are completed for pilot ministries supported by EGGI.
- **Provincial Budgeting:** Regional BC-1 workshops are conducted for pilot provincial Line Directorates.
- **Tax Administration:** Trainings on audit practices, basic management, functional management, and field compliance techniques are delivered to MTO/LTO tax officers and managers from Mazar, Kandahar, and Jalalabad.
- **Women in Government:** Internship Groups 2, 3, and 4 interns successfully graduate the program.

Acronyms

ACBR	Afghanistan Central Business Registry
ACD	Afghanistan Customs Department
AFMIS	Afghanistan Financial Management Information System
ANDS	Afghanistan National Development Strategy
AO	Activity Objective
CAO	Control and Audit Office
CCN	Cooperating Country National
DBBI	Doing Business Better Initiative
DG	Director General
DM	Deputy Minister
EGGI	Economic Growth & Governance Initiative
FPU	Fiscal Policy Unit
GIRoA	Government of Islamic Republic of Afghanistan
ICT	Information and Communications Technology
IDLG	Independent Directorate for Local Governance
IMF	International Monetary Fund
IR	Intermediate Result
LOE	Level of Effort
LTO	Large Taxpayer Office
MAIL	Ministry of Agriculture Irrigation and Livestock
MEW	Ministry of Energy and Water
MoCI	Ministry of Commerce and Industry
MoCIT	Ministry of Communication and Information Technology
MoED	Ministry of Education
MoEC	Ministry of Economy
MoF	Ministry of Finance
MoI	Ministry of Interior
MoPH	Ministry of Public Health
MOU	Memorandum of Understanding
MRRD	Ministry of Rural Rehabilitation and Development
MTO	Medium Taxpayer Office
MTEF	Medium-term Expenditure Framework
MTFF	Medium Term Fiscal Framework
NGO	Non-Governmental Organization
PMP	Performance Management Plan
PRT	Provincial Reconstruction Team
RRD	Revenue Reconciliation Database
SME	Small and Medium sized Enterprises
SOW	Statement of Work
TA	Technical Assistance
UK	United Kingdom
UK-DFID	United Kingdom Department for International Development
US	United States
USAID	United States Agency for International Development
USG	United States Government
VAT	Value-added Tax
WB	World Bank
WBS	Work Breakdown Structure
WIG	Women in Government (internship program)