



USAID | **AFGHANISTAN**
FROM THE AMERICAN PEOPLE

FUNCTIONAL AUDIT OF THE MINISTRY OF ECONOMY

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Foreword

This report was developed by USAID's Economic Growth and Governance Initiative (EGGI) between July to September 2010, in close consultation with the Ministry of Economy (MOEC) leadership. The Minister of Economy was closely engaged in the assessment with a view towards strengthening the capacity of the MOEC. In addition to working closely with the MOEC senior management (Minister, Deputy Ministers and Director General), EGGI also worked with the Independent Administrative Reform and Civil Service Commission (IARCSC) to clarify some civil service challenges.

The assessment includes the main report and annexes. The main report summarizes necessary changes and upgrade of the MOEC around core functions. Organization charts and proposed organization charts are shown in Annex of the report. Annex 1 is an independent report and it describes the "Development Policy Coordination through the PIP¹." Annex 2 and 3 provide detailed description of the MOEC at central and subnational level (selected provinces).

Once approved, the report will be finalized for presentation to the senior Management of the MOEC – and later this will be presented to the Cabinet and IARCSC.

¹ Annex 1 describes the "Development Policy Coordination" paper prepared and discussed with MOEC. Upon MOEC approval, this paper is expected to be presented to the Economic Committee of the Cabinet for discussion and follow up.

Executive Summary

The Government of the Islamic Republic of Afghanistan (GIROA) is gradually moving towards more direct responsibility for the delivery of reconstruction and development projects. The objective is that GIROA will assume full responsibility for the reconstruction process through the national budget by the end of 2014.

The MOEC is a central GIROA actor in Afghanistan's budgetary process. It has a role in the formulation of the development budget and is also a permanent member of the budget committee. However, the MOEC suffers from several challenges including lack of clarity over its exact role and functions, the need for internal restructuring and upgrade of its provincial capacity. The reorganization of core functions of the MOEC will help strengthen governance and transparency in the use of public resources in GIROA. (See Table 2 for the MOEC)

EGGI has supported the Minister of Economy through the provision of a policy advisor since July 2010. EGGI undertook a functional audit of the MOEC between July to September, and this report summarizes the results of this audit and presents a series of reform recommendations.

Assessment Results

Underutilization of staff – MOEC has a total staff complement of 507 staff with 402² at the center and 105³ professionals at the subnational level. Out of 507 staff, 214 are support staff such as drivers and cleaners. MOEC professional staff is currently underutilized or lacking at the center, and there is a disproportionate ratio of support staff.

- **GDPM&E is understaffed** – The General Department of Policy and Monitoring & Evaluation (GDPM&E) lacks staff. It is staffed only by 5 staff out of a Tashkeel of 30 persons due to administrative constraints (low salary and lengthy hiring process). The MOEC needs to upgrade this general department. The MOEC is in competition with various international organizations for the hiring of few skills existing in the market as IARCSC's salary level cannot compete with the market.
- **GDDC requires strengthening** – The General Department of Design and Consolidation (GDDC) is responsible for the screening and appraisal of projects prepared by the line ministries for the development budget. Line ministries lack clear guidance on the effective preparation and appraisal of development projects. Furthermore the GDDC will require more additional professional technical capacity such as economists that can more effectively assist with project appraisal. The GDDC also lacks information telecommunications system to link with the provinces; thus, responses are slow. There is some duplication among departments. The upgrading of this GDDC and the strengthening of line ministries to prepare project will help the prioritization of projects⁴ process in the Afghan PIP process that will enhance the efficiency of the sector.
- **Administration and Finance departments are overstaffed** – The Department of Administration and the Department of Finance are overstaffed and lack operational procedures manuals and computers.

² 99 female and 303 male

³ 1 female and 104 male

⁴ "Afghanistan Public Expenditures Review 2010", WB and DFID, April 2010, page 2

Weak participation in the budget process: Although the MOEC has a key role in the public investment project process⁵, it is constrained by a number of weaknesses:

- Public Investment Project preparation processes are weak due mainly to low technical capacity in line ministries and in MOEC;
- 66% of staff are located in Kabul while only 33% in the provinces;
- A significant proportion of MOEC staff are not computer literate;
- Lack of regular feedback communication and guidance between Kabul and the provinces;
- Staff lacks equipment such as computers (on average, 5 staff share one computer), internet (on average 1 internet connection/per department), and office space; while field representatives are constrained by a host of issues (for instance, lack of transportation, low salary, and technical know-how);
- Inadequate MOEC budget for operating and investment costs;
- Weak information dissemination within the MOEC and to the general public; and
- The late release of the investment budget hampers its implementation (in the winter months) as provinces scramble, resulting in a short time span to implement projects.

Operating capacity in the provinces: At the subnational level, MOEC's duties are well understood and accepted:

- Participating in the Provincial Development Plan - which coordinates and helps NGOs (Monitoring and Evaluation of NGOs) monitor physical progress and projects;
- Serving as Secretariat of the PDC (Provincial Development Committee);
- Coordinating line departments for reporting to the cabinet; and
- Receiving proposals – projects from communities and dispatches.

The task of upgrading MOEC will require various support teams at center and at subnational levels if the GIROA wants to improve its functioning.

Key Recommendations

Based upon the report's findings, the following recommendations are made:

Strengthen and De-concentrate MOEC to bring more quality services. MOEC leadership should consider the re-organization of the ministry around the following main functions:

Function 1 – Public Investment System function: This would support various project preparation activities in the Public Investment Program. It is the primary duty of the MOEC to screen and select public projects at the center and at local levels. Strengthening this function would enable the selection of more high-quality projects in the core development expenditure of the national budget.

Function 2 – Policy, Economic Analysis, and Monitoring function: This would be the focal point for MOEC with regards to economic policy formulation and monitoring of economic developments. It plans and publishes policy reports, and screens and monitors large projects for the public sector. Strengthening this function will contribute to the “transparency” of public expenditures.

Function 3 – Finance and Administration function: This key function will support the MOEC in the area of human resources, finance, and general administration.

⁵ Through the following functions on preparation of public investment programs, ARDS (procurement compliance) and M&E (monitoring and evaluation of projects and programs)

Function 4 – Quality Control and Reporting function: This would cover the registration, control and inspection of NGOs operating in Afghanistan. It includes the Department of NGOs, the Department of “report, budget and coordination” and the ARDS. The ARDS provides “governance and transparency” in the procurement of the Afghan Public Investment System and is one of the successful department with over 670 projects screened for US\$ 1.8 billion. In the reporting, the MOEC plays the role of secretariat for many inter-ministerial commissions (3 commissions).

Function 5 – Office of the Minister function: This would aim at providing advice and support to the Minister and D. Ministers. It includes spokesperson, PR, IT as well as the communication unit.

Function 6 – Provincial Service Delivery function: At the subnational level, the core functions are Coordination and Reporting, Public Investment Program, and Monitoring and Evaluation. Specifically, these include:

- Reporting for the GIROA (various reports from provincial sectors to the national level);
- Participation in the PDP (Provincial Development Plan) and PSP (Provincial Strategic Plan) with IDLG;
- PIP and aid coordination at provincial level (grants, selection and prioritization of small projects, and dialogue with donors and NGOs); and
- M&E of projects and NGOs at provincial level.

To deliver these key functions, the MOEC will need to undertake the following:

- **Invest in better logistics and systems** – The MOEC needs significant investment to upgrade organizational and human resource development, training, and support for operations in the center and in the field.
- **Develop consensus on role and mission** – An agreement must be reached on the strategic vision, mission and operating principles of the ministry (See Annex).
- **Maintain staffing levels but undertake reallocation of human resources** – In line with the GIROA’s reform, the report recommends MOEC keeping staff levels at current levels. However, the MOEC should consider reallocation of human resources and consolidate departments together to bring better information and efficiency. Furthermore, over the next three years, the assessment report proposes the following:
 - **Hire more qualified staff** – At the central level, to maintain the number of staff at 472 staff with transfusion of “new blood,” better educated professionals that will require better pay but will upgrade the PIP and the M&E functions.
 - **De-concentrate to the local level** – IDLG plans to de-concentrate the civil service to support the subnational level. The MOEC needs to plan to double the de-concentration of staff from existing 105 to 210 during a three-year period allowing expansion into districts. The ratio of central to de-concentrated staff must move from 66/33% to 50/50% between central and subnational MOEC within three years.
 - **Strengthen provincial capacity** – In general, the subnational level is performing well, although unevenly. One of the priorities should be the focus on subnational level as the MOEC is providing good coordination between line ministries and agencies and donors. There is a need to expand MOEC beyond the central and provincial levels.
 - **Diversify workforce** – Although there are few female professionals at the MOEC, a special effort to hire more women, especially at subnational level would be advisable.

The best option for MOEC would be to:

- Upgrade the PIP system, with coordination from line ministries;
- Strengthen and staff the policy and M&E functions; and
- Provide logistics to the subnational level.

EGGI can provide assistance to MOEC in the area of the PIP system and/or the strengthening the M&E function. For other areas, MOEC should contact various donors for additional assistance.

Next steps

More detailed programs and action plans will be developed after the review of this report by the senior Management of MOEC. The following topics could be proposed to the MOEC:

- Priority areas that could be supported by EGGI and other donors;
- Overall program to strengthen the MOEC along core functions;
- Establishment of a strategic plan for the MOEC 2011-2013;
- Communication plan for the MOEC, including the wiring of the MOEC; and
- Activities that involve the IARCSC and donors to institutionalize “upgrading task at MOEC”.

Introduction

Background

The former Ministry of Planning was established in 1333 (1954) by an act of legislature and its successor organization, the Ministry of Economy (MOEC), was formed in 2005. The Ministry of Economy is charged with the responsibility of coordinating development policy, the investment budget, and coordination at the decentralized level.

This report presents the preliminary findings of the functional audit of the MOEC and a set of proposed reform recommendations. The assessment was carried under the USAID EGGI program. A functional assessment and review is the starting point for developing a capacity reform strategy. The assessment sets out the purpose, functions, and relationships of each department within the MOEC and its relations with other stakeholders outside the MOEC as well as in the decentralized level.

The purpose of the assessment was to analyze and determine MOEC's current and future capacity needs and propose interventions aimed at strengthening the capacity of the MOEC to effectively support the Afghanistan National Development Strategy (ANDS) and the Kabul Process. It is anticipated that this report will help MOEC:

- Create operating efficiencies through a more rationalized and efficient organizational structure designed to consolidate duplicative functions and link related activities to generate synergy;
- Enhance the MOEC's human capital by attracting highly skilled staff in light of improved organizational and human resources (HR) systems, infrastructural, and technological capacities resulting from the capacity building process; and
- Facilitate the Ministry's ability to re-focus and streamline its functions by taking advantage of the new operating efficiencies resulting from improved strategic direction and mandate, organizational structure, and higher productivity of trained and motivated staff.

The capacity needs assessment process was carried out in the following sequence:

- Key documents – including previous reports, write-ups, and proposals relating to MOEC – collected and studied;
- Initial meetings held with MOEC counterparts as well as with heads of departments, divisions and sections to discuss the capacity needs assessment process as well as the challenges currently faced by MOEC;
- Separate, detailed meetings held with each department, divisional, and sectional head in order to obtain information on mandate, functions, structure, processes, quantity and quality of human resources (HR), challenges faced in service delivery, and areas that require capacity building;
- Meetings were conducted with other members of staff, either individually or in groups to obtain job-related information, training needs, constraints to effective performance, and conditions of service;
- Provincial level 1 assessment (Balk and Herat). There will be a program to assess other provinces in levels 2 and 3;
- Meetings and consultation with Ministry of Finance Budget Department officials.

Following the Minister's review, validation workshops and guidance on proposed changes, the draft report was validated.

Overview

The MOEC's role is to coordinate GIROA's effort in the area of economic development, especially the public investment process. Three decades of war, has destroyed Afghanistan's infrastructure, human capacity and opportunities throughout the country; thus, the GIROA will need to strengthen capacity in fields of security, governance, and administrations to meet the development and reconstruction needs of the country.

The present organizational setup at the MOEC is unbalanced. In general, it has inadequate professional and technical capacity to perform its scope of functions and responsibilities with outdated processes and organization, and lacks systematic mechanisms and processes to promote change in economic development sector of Afghanistan. Other challenges faced by MOEC include redefining and prioritization of its role and functions, restructuring its central functions to support the de-concentration effort of the GIROA set forth in the IDLG "Sub National Governance Policy" in spring 2010, and rebuilding its technical services to respond to the needs of economic development.

The core functions of the MOEC include:

- Oversight of the Public Investment Program Prioritization process;
- Monitoring and Evaluation of the Afghanistan National Development Strategy (ANDS);
- Broad coordination of GIROA service delivery at the provincial level.

Coordinating the various functions of the MOEC will require effective decision-making coordination, organizational change and better technical capacity. The Department of Policy and M&E and other selected departments of the MOEC have started to reorganize themselves under the PRR (Priority Reform and Restructuring Program) and Pay and Grading Program. However, MOEC will need to implement further organizational reforms and adopt a more client-oriented performance service culture so that it can support the Kabul Conference Process to establish the presence and legitimacy of the central government at the subnational level.

In the absence of proper organization and management structures staffed with professionals, the MOEC will be constrained in the discharge of its core responsibilities. Although the MOEC has gone through the PRR, the organization chart shows that the MOEC is still in transition [See Org 1 -- Present 2010 organization of the MOEC in Annex 1].

Ministry of Economy Core Functions

As stated previously, one of the main functions of the MOEC is the screening and appraisal of public investment projects and effective monitoring and evaluation. Providing macro-economic vision to the country and monitoring of projects in the PIP as well as the coordination of GIROA service delivery in the provinces are other important priorities of MOEC. As such, the MOEC needs to work with other ministries to:

- Prepare development policies, plans, and programs for a sustainable development of national economy, policies and programs;
- Establish standards, rules, and guidance on the preparation of Public Investment Programs (PIP);
- Establish standards, rules, and regulations covering the monitoring of the public investment program including the implementation of the ANDS;
- Promote and maintain linkages with bilateral, multilateral, and other international bodies to foster technical cooperation and coordination in the agriculture sector;
- Report implementation of the investment budget to the Economic committee and to the Cabinet; and
- Perform other functions as set out by law.

Public Investment System and Coordination

The key function at MOEC is the “Afghan Public Investment System” (APIS) which includes:

- **Identification:** Development of “open” project reconnaissance, nomination, identification, and characterization procedures to ensure that a wide variety of investment options are discovered and considered from all available nominating sources, and made known to the various funding authorities and relevant decision-makers for evaluation.
- **Evaluation:** Development of “open” compatible investment evaluation standards to quantify project costs, benefits, externalities and social and other impacts, so that projects nominated from various sources can be compared with each other and a wide range of alternatives considered, by a wide variety of funding agencies.
- **Selection:** Development of “open” compatible investment selection standards, to ensure that investment flows to the areas of greatest need and to activities that achieve a high social rate of return, to ensure that the best available investments are selected, and that the portfolio of public investments as a whole corresponds to the Afghan economic development strategy.
- **Monitoring:** Once underway, all projects/investments should be monitored to ensure progress. Investment decisions should be revisited and reviewed regularly so that successful projects can be augmented and unsuccessful projects terminated, and thereby necessary assistance can be mobilized if correctable difficulties threaten the viability of otherwise viable projects. Once projects are completed, or once ongoing activities mature, they should be reviewed and evaluated retrospectively.

Better visibility and transparency in the preparation of development projects in order to achieve an efficient public investment portfolio in Afghanistan, and that means a standardized “open system” able to incorporate or accommodate the criteria of numerous investing and implementation entities. A bewildering array of international agencies and bilateral donor programs fund public investment in Afghanistan, as well as the Afghan government and other sources such as NGOs. MOEC will need to

be able to integrate their various public investments into a common visible portfolio and step by step through the national budget. Readily available standardized procedures do not yet exist for many entities to request funding or nominate projects; for example, provinces have difficulties making their needs known and put under consideration.

Once investments are undertaken, they must be effectively monitored so implementation problems can be identified early and addressed. This helps to ensure that the investment is not needlessly lost due to under-performance issues. Once they are finished or mature, investments should be evaluated retrospectively to derive “lessons learned” and apply these in the formation of future projects. During implementation, liaison must be maintained across a broad array of participating and interested organizations.

In the APIS, the MOEC is providing “transparency” in the process through:

- Appraisal and selection of projects through the Public Investment Process (PIP) i.e. project selection, screening and prioritization;
- Procurement Law compliance through the ARDS procurement process and;
- Monitoring and Evaluation (M&E) of the project implementation; and
- Active monitoring for NGOs.

Macroeconomic Analysis

MOEC should look to strengthen its capacity in the following areas:

- **Better coordination with GIROA stakeholders responsible for macroeconomic forecasting:** MOEC should work more closely with the DAB (who are responsible for macroeconomic forecasting in Afghanistan) to better understand forward-looking quantitative projections of the indicators of Afghan economic performance. This will help inform better policy formulation and decision making within the MOEC with regards to the preparation of public investment projects.
- **Analyses:** Forward-looking quantitative and qualitative analyses of expected Afghan economic performance in various sectors, identifying determinants of growth and problem areas, to support decision making.

To inform policies on growth and address market failures, MOEC (working with other stakeholders such as MOF, CSO and DAB, etc.) will need to survey and monitor economic performance in Afghanistan. The capability to understand forecasts of future economic performance is vital to support effective economic decision making, as is the analysis of the determinants of economic performance at the levels of the entire Afghan economy, the regions, sectors, and projects.

Taking into account the above, the MOEC should be reorganized to carry out the following core functions:

Function 1: The Afghan Public Investment System (APIS) function, i.e. Screening, Appraisal, Selection and Prioritization of projects.

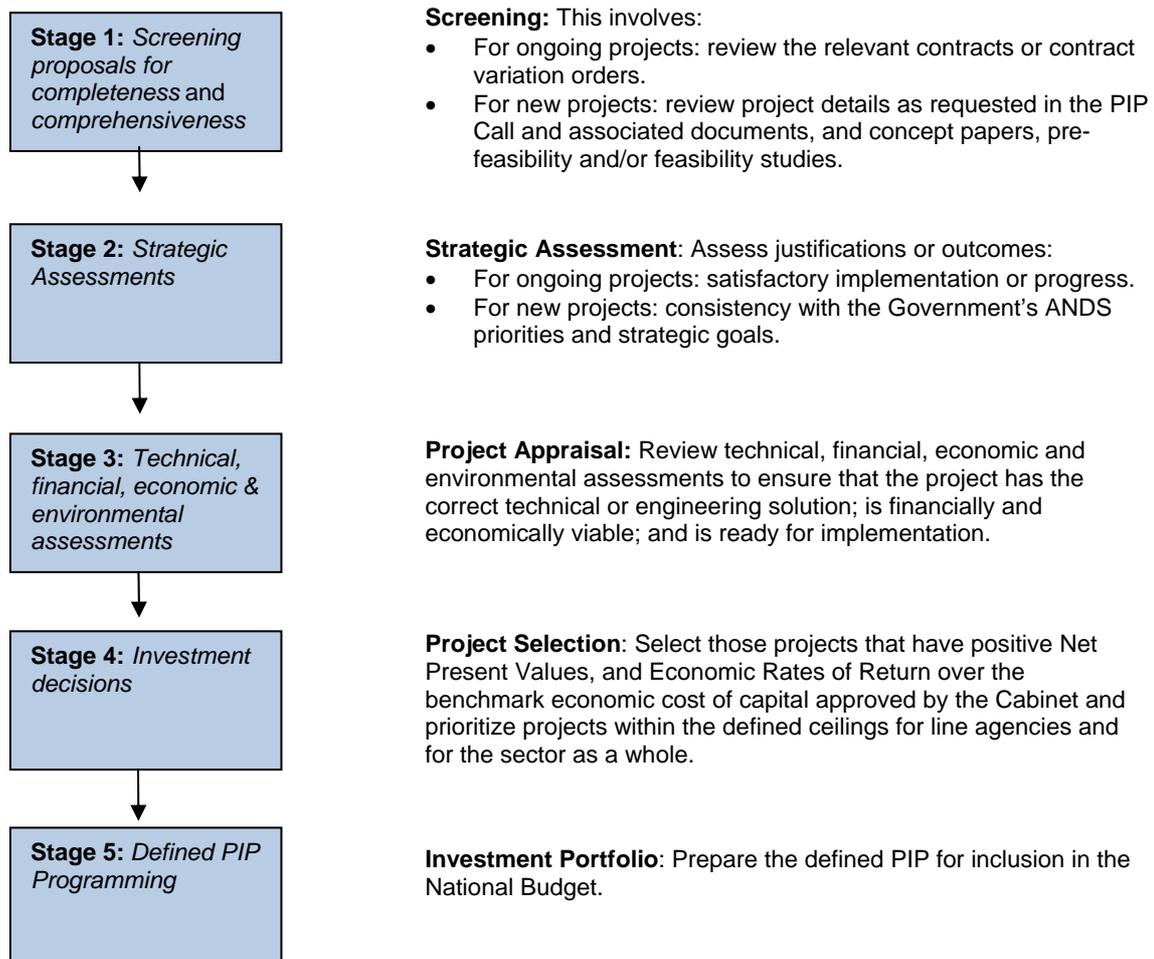
This is the core function of the MOEC, i.e. the prioritization of the public investment process. The Directorate General of Design and consolidation in charge of the Public Investment Program (PIP) – project appraisal is composed a number of departments:

1. Department of Investment Budget
2. Department of Social Affairs
3. Department of Industries
4. Department of Education, Health and Culture

5. Department of Agriculture and Irrigation
6. Department of Trade, Private Sector Development and Finance
7. Department of Regional Development
8. Department of Provincial Relations
9. Department of Projects and Programs Design
10. Department of Technical Monitoring

MOEC public investment function covers the screening, appraisal and prioritization of public investment projects. It serves as a “transparent process” to vet out projects that do not meet requirements or are not in the priority sectors. There are presently there are two main project screening process at MOEC: One by submitted by line ministries under conventional regular program and the other submitted by line ministries under the Committee for Border Provinces’ Requirements. Thus, the Afghanistan Public Investment System (APIS) function is composed of various schemes: the regular investment program, the Border provinces requirement program, the provincial projects’ initiative, the NSP/MRRD program, and the donors’ projects (outside budget).

Figure 1 – Stages of Project Appraisal, Selection, Prioritization and Programming



STAGE 1: Screening of Public Investment Submissions for Completeness and Comprehensiveness

The objective of this stage is to ensure that submissions from line agencies are complete and comprehensive enough to allow a thorough analysis by the MOEC. Three decision points are required in this stage:

- 1) Compliance with PIP Call requirements
- 2) Completeness checks
- 3) Comprehensiveness checks

STAGE 2: Strategic Assessment

The objectives of this stage are to 1) ensure that project outputs and outcomes (impacts) will deliver on the Government's goals in the ANDS, Kabul "Clusters" or sector objectives, and 2) ensure that the outputs and outcomes will contribute directly to the achievement of the agency's medium-term objectives in the ANDS and Kabul Conference Process.

The strategic assessment process should identify whether the project expected outputs and outcomes are aligned with the goals/objectives in the above-mentioned plans. If projects are grouped under "clusters", the MOEC can work out with the MOF and line ministries on a process which involves screening and technical-financial-economic and environmental assessments according to grouping by "clusters". If a project falls short of the minimum score but appear to be economically worthwhile, MOEC will allow the line ministry to rework the proposal to align it with the strategic goals and sector development objectives.

STAGE 3: Technical, Financial, Economic and Environmental Assessments

This is an important stage in the appraisal process as this is the final hurdle a project must clear for possible inclusion in the PIP. For projects over USD \$ 500,000, Pre-feasibility and Feasibility Studies will be needed.

Pre-feasibility Study: The appraisal is to determine project value and eligibility, according to the following criteria: 1) Project adds to the total economic welfare of Afghanistan based on the existing and projected economic cost of capital; and 2) Project has a good chance for successful implementation due to passing muster on these questions:

- Is it ready for implementation?
- Has the line ministry resolved social issues that could create opposition from interest groups?
- Does the line ministry have a risk identification and mitigation plan?

Feasibility Study: The same approach described in the Pre-Feasibility stage should be applied to the feasibility study. In addition, the following factors are to be added and considered: *Cost-effectiveness analysis vis-a-vis Cost/benefit Analysis* – A cost-effectiveness analysis should be used to evaluate how to achieve the project goals or objectives at the least cost (to achieve cost-efficiency) for projects where: economic benefits have been well-established (e.g. school building, irrigation and water protection projects); or economic benefits cannot be valued in monetary terms, or it is unduly expensive to undertake such a valuation (e.g. select environmental projects).

In the future, when Afghanistan will need to borrow money, the assessment of the project by the PIP Committee (PIP C) will consider whether the financing option proposed or recommended by the project proponent is the most optimal —by ensuring that the term of the loan for the project is within its economic life, and that the cheapest funding source is used. The MOF is involved in Stage 3.

STAGE 4: Investment Decision

At this stage, all projects that pass Stages 1-3 will be selected for funding consideration.

Projects < USD \$500,000: In order to ensure that adequate funding will be available for small but nationally significant projects, the MOEC may choose to work with the MOF to set a notional ceiling for these small projects. Approvals for all small projects would be considered within the notional ceiling. Otherwise, the priorities for this category are:

- 1st priority: ongoing projects; and
2nd priority: projects in sectors identified by the ANDS and the Kabul Conference as high in priority for the country.

Projects > USD \$500,000: Ongoing projects should be accorded the highest priority because they can deliver the impacts (outcomes) sooner than new projects. Conversely, any *delays* in on-going projects will have an economic cost: possible deterioration of the work-in-progress; the cost of down-tooling (equipment lying idle); and the cost of restarting (re-hiring labor and skilled contractors). Therefore the priorities for this category are:

- 1st priority: ongoing projects in descending order of their ERRs (Economic Rate of Return); and
2nd priority: new projects listed in descending order of their ERRs within "clusters."

Within the prioritized list of projects, the defined ceiling for each line ministry will determine the cut-off point. The MOF is involved in Stage 4.

STAGE 5: Defined PIP Programming

At this stage, all projects that pass Stage 4 will be selected to be included into the Investment PIP program. These projects will be presented to the MOF for budget consideration.

MOF will assume control after Stage 5. The public investment program will follow the budget process as prepared by the MOF.

The present PIP process lacks Stages 3, 4 and 5. As a result, the process is weak and efforts should be concentrated on upgrading this PIP process.

Function 2: The Policy, Economic Analysis and Monitoring Function

The Afghanistan economic sector requires a continuous process of designing the proper policy package to achieve a suitable environment for productive activities, as well as continuously improving it as the private sector evolves and expands. This function will take the lead in policy formulation and should study and analyze both types of policies and other cross cutting issues such as coordination at provincial level, and monitoring of the Afghanistan National Development Strategy (ANDS) to assure the following objectives:

- To provide a clear and updated picture of the policies and projects being undertaken with regard to economic development including macro-economic and macro-sector policies directly related to support services policies, especially:
 - Policies that have been enacted;
 - Gaps between policies enacted, implemented and Afghans' needs and the levels of implementation at the province, and district levels; and
- To propose required changes in policies, structures, and procedures to improve the operation of the ANDS.

The Policy function would support, develop, and prepare policy and M&E reports. Its main duty is to prepare policies, methodology for M&E and coordinate the work of the M&E of various ministries for ANDS monitoring. When MOEC capabilities will be strengthened, the MOEC will be able to prepare technical concept notes and projects for funding by international donors.

This function is expected to help the advancement of the public investment program as well as the economic development. It is therefore necessary to help staff the General Department of Policy and Monitoring and Evaluation (GDPM&E) to plan, coordinate, and monitor various policies and activities necessary to boost the Afghan economy. The priority should be to build the capacity to carry out activities in:

- Macroeconomic and sector policy, project preparation, and cross cutting issues;
- M&E of the ANDS with a view to report on its implementation to ensure transparency and accountability for the overall ANDS. The M&E function will work to monitor the ANDS and other policies decided by the cabinet. The M&E function will also report to the Minister through defined reporting lines.

The M&E function will help the MOEC to follow the results and evaluate programs, projects, and related work activities as well as to collect data for policy decisions and to give feedback to MOEC management. Ideally, it should be an independent function. Presently it is understaffed to carry its duties.

This function should be built step by step and will strengthen the MOEC. This GDPM&E is targeted to work in the area of "large project" but it needs help in this area linked to the PIP. However, the capacity building will have to target other line ministries to improve quality of projects.

Function 3: Finance and Administrative Support Services Function

The main purpose of the Finance and Administrative support function is to provide effective and efficient financial and administrative support services to enable the Ministry achieve its mission. This department would, therefore, focus on the effective management of the Ministry's financial, human, and related institutional resources so as to ensure that core functions are delivered in a professional and cost-effective manner.

In this regard, this support department would ensure that the MOEC can apply "best practices", for example, ensure per the "PRR and Pay and Grading" procedures, that recruitment and promotion are decided on merit, that job descriptions exist and are adhered to, and that performance evaluation is

promoted. This function will also ensure that the MOEC develops a qualified and performance-oriented staff. To achieve the above aspirations, three main divisions are proposed:

- **Finance and Services Directorate** -- The main purpose of this directorate would be to manage the Ministry's financial resources in order to contribute to the attainment of its mission.
- **Human Resource Management (HRM) Directorate** -- Its purpose would be to ensure that appropriate HRM Systems, strategies, and procedures are developed and implemented so as to enable the Ministry to attract, employ, develop, and retain the quality and quantity of human resources necessary for efficient and effective delivery of the Ministry's services; and
- **Support Division** -- This division would exist to provide and coordinate office, logistical and general support services so as to ensure that the Ministry achieves its objectives.

Function 4: Quality Control and Reporting Function

Each quarter, the MOEC has to present a report to the cabinet on the public investment projects. This report is prepared by the Directorate General of Design and Coordination (DGDC) for presentation to the Cabinet and other stakeholders (Kabul process structure).

The coordination report aims to give the status of project implementation in Afghanistan. The reporting process includes reporting from line ministries on a number of on-going and new projects, to include relevant details such as cost and donor participation/funding.

NGOs

There are over 1,650 NGOs working in Afghanistan (of which 330 international NGOs) and they provide services to the population. The MOEC is in charge of the registration and monitoring of NGOs working in the country. These NGOs receive funding from the National Budget, and they require monitoring to ensure transparency. The MOEC is reviewing the existing support services provided by NGOs and to monitor the spending of the funding of the national budget to NGOs. Presently, 70-80% of the investment budget funding goes to NGOs. The MOEC priority tasks concerning NGOs comprise:

- Registration, monitoring and quality control of NGOs;
- Maintenance of a database on NGOs;
- Staffing quality requirements in connection with overall Afghan visa requirements; and
- Monitoring of NGOs.

At the provincial level, the MOEC monitors NGOs and helps them in various administrative requirements, such as to obtain visa and M&E of their work.

Afghan Reconstruction and Development Services (ARDS)

One important feature for transparency is compliance with the procurement. ARDS department assists in the procurement of goods and services, and fulfills its transparency and monitoring roles. ARDS helps line ministries to procure goods and services above some thresholds. The thresholds are:

- Work activities > \$1 million
- Goods > \$500,000
- Consultancy > \$250,000

ARDS makes sure that all procurement actions will follow the "procurement law" and that selection of consultants, contractors and good suppliers is in accordance with the law. From 2004 to May 2010, ARDS is instrumental to finalizing 670 contracts at US\$1.8 billion. The break-out of procurement cases is described in the Annex.

The quality control function encompasses, reporting for the cabinet, registration, quality control and monitoring of NGOs, and compliance with the procurement process.

Reporting

In the reporting function, the Economic Committee reports weekly to the cabinet. The MOEC is the secretariat for the Economic Committee which comprises the MOEC, MOF, line ministries, etc. It reports on the implementation of the projects in the field and main economic issues such as the operational costs for maintaining roads.

Reports from the provincial level will feed into the Directorate General of Design and Coordination (DGDC), which in turn produces a consolidated report for all the 34 provinces for the Minister. There are the monthly and quarterly reports to the cabinet on the functioning of various projects in Afghanistan. For this quarter, for example, the implementation rate is only 4%, which is a big constraint on the capacity of the GIROA to implement projects.

The DGDC performs the role of the secretariat to the Inter-Ministerial Commission on Capacity Development (ICCD). Its core functions are to coordinate the process of assessing and identifying the areas that need capacity development. The ICCD is composed of government and civil service, private sector, higher education and vocational education coordination. It is composed of 5 technical advisors and the MOEC plays the role of the secretariat. The MOEC also plays the role of the secretariat for the ICE (Inter-ministerial Commission for the Energy sector).

Function 5: Office of the Minister Function

The purpose of the Minister's Office would be to inform and steer the MOEC leadership group to reach its goal and objectives through the formulation of responsive economic policies, selection of public investment projects and programs, and the effective coordination of decision making that affects the operation of the MOEC.

Office of the Minister Staff Functions

The mandate of the Minister's Office is to assist the Minister in the pursuit of his political, legislative, and statutory duties. This office will take on new functions aimed at creating functional relations and linkages with the Legislature and other relevant bodies. The Minister's Office shall remain small to reflect the nature of the Ministry's tasks, which have a much heavier emphasis on policy and political roles. The Minister's Office shall enable the MOEC to implement and monitor the execution of policy, programs, and management of the economic sector. Thus, enhancing the current level of performance around the main functions of the MOEC is crucial to efficient management and execution of operations.

Information Technology

There is a lack of computer equipment and IT based at the Minister's Office. On average, there is one computer for four people. Furthermore, each department has one computer linked with the internet system and some departments do not have internet or email capabilities. Although the Afghan Government is now equipped with a fiber optic cable, the connection between the MOEC and the fiber optic cable is not complete. Internet exists at the MOEC but is usually available on a priority basis. The lack of computers and internet will not allow the MOEC to quickly respond to provincial needs and speed up the work at MOEC.

Function 6: Provincial Service Delivery Function

The GIROA intends to de-concentrate its structures to support the economic development, especially where 80% of its population reside. It is noted that Afghanistan is undergoing important changes and transformations as a result of the ANDS and other development programs. The MOEC will synchronize its de-concentration program with the overall GIROA Program on subnational Governance (IDLG) and NSP to build institutional infrastructure and governance at the local levels. Main responsibilities at the subnational level include:

- Reporting for the GIROA (various reports from provincial sectors to the national level);
- Participation in the PDP (Provincial Development Plan) and PSP (Provincial Strategic Plan) with IDLG;

- PIP and aid coordination at provincial level (selection and prioritization of small projects – grants – dialogue with donors and NGOs); and
- M&E of projects and NGOs at provincial level.

The MOEC at the provincial level is playing its role as the coordinating organization for the economic development and service delivery in the province. The MOEC employees available in the provinces are ill-equipped to handle its responsibilities, and the MOEC does not always have the budget or the means for transportation, communications, and training. It lacks presence at the district level, hence the coordination of economic development at the district level is hampered.

The MOEC's Director plays the role of coordination of the development at the provincial level, as the secretariat of the Provincial Development Committee (PDC). The MOEC helps to prepare and carry the PDP (Provincial Development Plan) to prioritize development efforts of the province. Through the PDP, donors can help the province. Presently, the PDP is a list of prioritized projects that the province wants to implement, and it represents development from a bottom-up approach with participation from all areas in the province.

The MOEC screens small project appraisal, monitors projects and coordinates management at subnational levels. It performs and coordinates various tasks to manage economic development at the provincial level, from analyzing the local situation to implementing various interventions addressing factors that impact the business enabling environment. Due to the changes of GIROA's policy, especially the move toward de-concentration, MOEC will need to improve its capacity at the subnational level.

Implementation Strategy

The restructuring of the MOEC will require donor assistance and funding to train and build the capacity of the selected departments and projects to reinvigorate the selected departments. The process of restructuring and reorganizing the MOEC and its implementation is likely to take up to 36 months.

If the Assessment Report is accepted, the various steps for implementing the upgrading of the MOEC should include:

A. Establishment of a RIMU (Reform Implementation Management Unit)

The MOEC will need to organize functions and assign correct responsibilities under clearly defined accountabilities. Making organizational performance indicators clear is a key element. Fundamental to this step is a definition of measurable and time bounded performance levels of human resources assigned to the production or delivery processing units. Under the chair of the Minister, the RIMU will concentrate on:

- Reviewing the organizational structure for the ministry and carry implementation;
- Right-sizing of the MOEC at central and at local levels, i.e., matching resources and needs through prioritization and corresponding staff deployment;
- Implementing goals and objectives, and timeframe for these implementations, along with a further description of the responsibilities of the new position; and
- Monitoring the implementation and suggesting further revision if needed.

B. Upgrade the Office of the Minister (OOM)

The mandate of the Minister's Office is to assist and support the Minister in pursuit of his stated objectives in coordination with the Legislative Council and statutory duties to improve the effectiveness of the MOEC. The Office of the Minister (OOM) will include Public Relations, Communications, Legal, Audit, External coordination, ICE, ICCD commissions, and support staff.

C. Upgrade the General Directorate

Under the chair of the Minister, heads of general directorates, i.e. DGPM&E, DGPIP, and Senior Director of Administration and Finance will be responsible for the planning, implementation, and coordination with the relevant upgrading programs with the help of various projects.

Directorate General of PIP and Coordination: The former Directorate General of Design and Consolidation (DGDC) should be renamed as DG of Public Investment and Coordination. The 13 sector departments focusing on the appraisal of projects will be regrouped and organized along the 5 stages proposed in Figure 1 to carry the screening and appraisal of small projects (PIP function). It is proposed that these departments be re-grouped under a workable span of control around its main functions:

- PIP (Public Investment Program) function
- Reporting and coordination of Investment Budget and M&E of NGOs function
- Provincial function

Under the PIP function, the sector departments will be reorganized to mirror the needs of the PIP – working mainly on small projects. The operationalization of the PIP process will take time to develop and take root and this process will also be applied to the provincial level.

Under the reporting and coordination function, the department of NGOs will be upgraded to serve NGOs (both national and international). A coordination committee for NGOs is proposed whose main focus is to coordinate and monitor the work of national and international NGOs in Afghanistan.

Under the provincial management function, the two departments ought to be regrouped and fused to manage, update and build capacity for the 34 provinces in the subnational level. At provincial level, the

provincial director is the representative of the MOEC at the provincial level. His functions, including staff, required at this level include:

- Coordination of the PDC – support for provincial development
- PIP, especially small project screening
- M&E of small projects and NGOs

Directorate General of Policy and Planning: The Directorate General of Policy and Monitoring and Evaluation (DGPM&E) is composed of three directorates: Economic Policy and ANDS evaluation directorate, the ANDS Monitoring Methodology directorate and the Project Design directorate. The DG has a Tashkeel of 30 persons but presently has only 5 persons under the MCP program. It includes policy planning, projects, and M&E. This department lacks a macro-economic unit, which needs to address key cross-cutting issues faced by Afghanistan, such as investment, and broad-based economic development issues. The lack of staff is the big constraint due to “low civil service salary”. It is proposed to strengthen and staff this General Department around its main functions:

- Monitoring and Evaluation of the ANDS and projects
- Policy and Macroeconomic function
- Large project function

Directorate of Administration and Finance: The Directorate of Finance will be upgraded through “automation – computerization”.

In summary, as a result of the implementation strategy, the MOEC could move from Fig 1 to Fig 2 for the national level as seen in the Proposed Organization Chart of the MOEC (Annex 1). The MOEC at the subnational level could be conceived as seen in Org 3 -- Subnational MOEC (Annex 1).

Proposed Sequencing of Reforms

The present MOEC is a small ministry by size (<507 staff). However, it is important in the coordination of activities of other line ministries as well as providing vision on “sustainable development”. With time, MOEC could upgrade its capacity to carry its functions timely and efficiently. A phased implementation of the change process is recommended and it is expected that it will take at least up to 36 months to complete the change process in the MOEC. The following steps are key elements to the process:

- Approve upgraded organization structure
- Allocate staff to a new structure along main functions
- Prioritize departments to be restructured and the phasing of the implementation plan
- Implement new structure with the help of various TAs
- Transfer and redeploy surplus staff, including redeployment arrangements, to the field or de-concentrated level

At the center, the MOEC should prioritize the following functions:

- PIP function
- Policy and M&E function
- Provincial level management function

At the provincial level, the MOEC should prioritize the following functions:

- Regional development and staffing at the province level, focusing on improving the management function, i.e. prioritization of small projects, and support to private sector development

At the end of the first stage of restructuring (18 months into the process), the MOEC should be able to perform its basic and core functions in a more efficient and cost-effective manner. The MOEC would be able to carry its core functions and bring value added to the “transparency in public investment.”

Training and Capacity Building

A program of capacity building – training at the Civil Service Institute, including twinning with other countries, and scholarships for staff abroad and in-country should be considered.

The EGGI team will propose a training and capacity building program/strategy for the MOEC in the area of PIP and M&E (if the assessment is accepted by the MOEC) working with the Civil Service Institute and others. Development programs would include the mentoring by professionals followed by internships and study tours abroad.

Conclusion

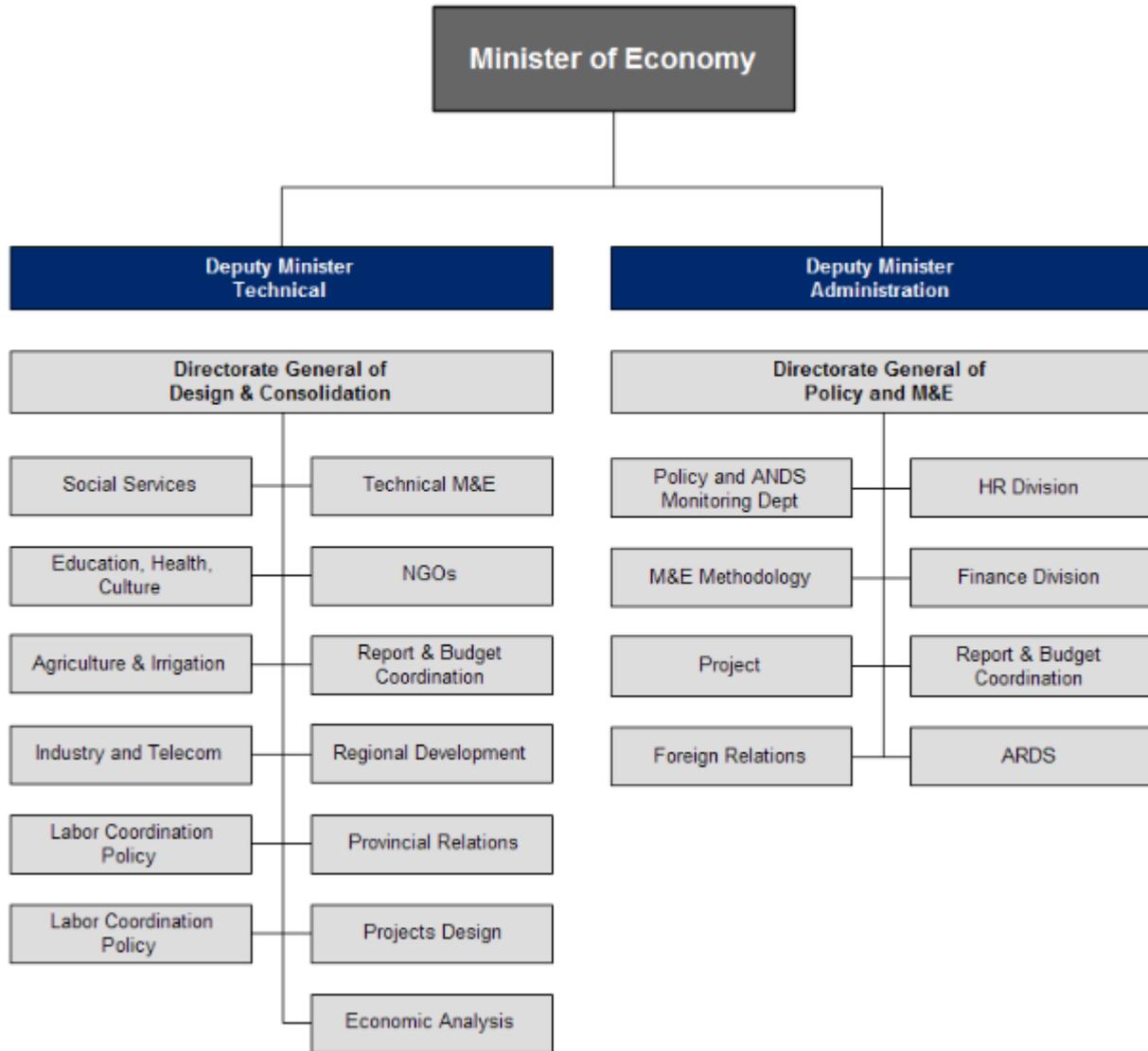
The MOEC is responsible for the development vision and coordination of the economic development through the PIP. It shares the responsibility for shaping and bringing transparency to the whole process of the public investment program (from appraisal to procurement and monitoring and evaluation) and the quality control function of those projects. The first phase (2011-2013) of the proposed reform agenda would aim at staffing and upgrading the PIP, Policy and M&E functions at MOEC.

The provincial offices are doing a “fair” job in coordinating economic development. If time permits, MOEC should concentrate its efforts also in the subnational level, for example, selecting 5 provinces to upgrade and then expanding slowly to the other provinces and districts.

Annex

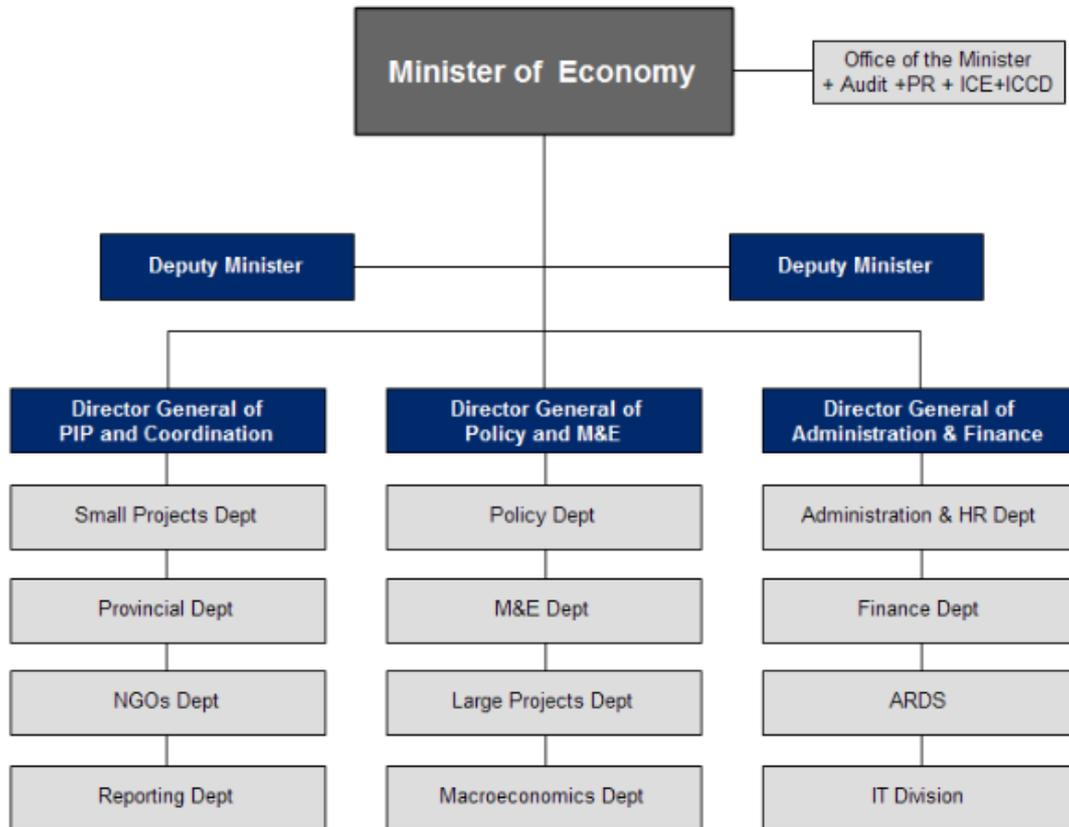
Annex 1

Org 1 -- Present Organizational Chart of the MOEC



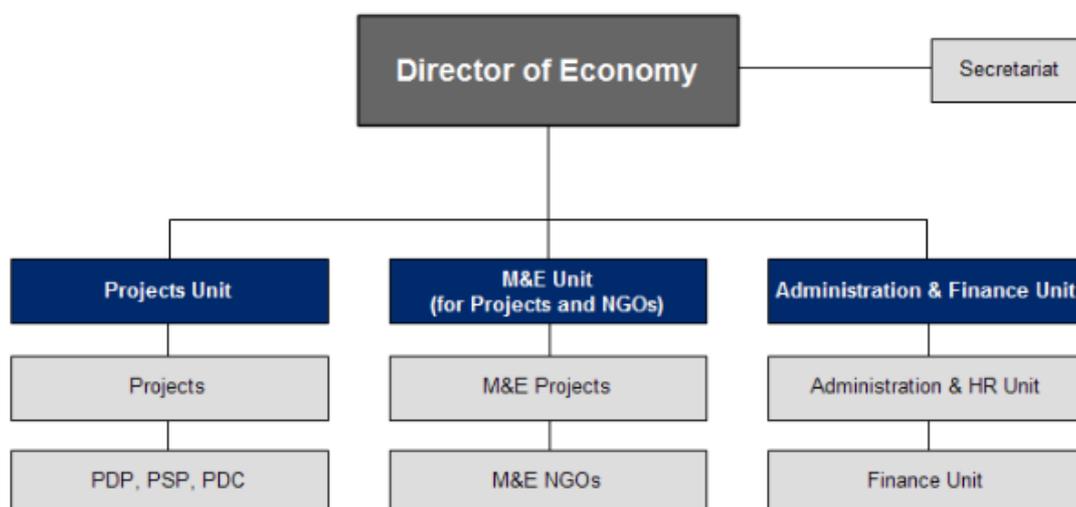
Annex 2

Org 2 – Proposed Organizational Chart of the MOEC



Annex 3

Org 3 – Subnational MOEC



Acronyms

ANDS	Afghanistan National Development Strategy
ANDS MMD	ANDS Monitoring Methodology Department
APIS	Afghan Public Investment System
ARDS	Afghan Reconstruction and Development Services
COP	Chief of Party
CSC	Civil Service Commission
CTO	Cognizant Technical Officer
DBI	Department of Budget Integration of the MOEC
DM	Deputy Minister
DDC	District Development Committee
DFR	Department of Foreign Relations
DFS	Department of Finance and Services
DHR	Department of Human Resources
DRD	Department of Regional Development
DSS	Department of Social Services
DIC	Department of Industries and Telecommunications
FY	Fiscal Year (March 22nd – April)
GDPM&E	General Department of Policy and Monitoring and Evaluation
GDDC	General Department of Design and Coordination
GOI	Government of India
GIROA	Government of Islamic Republic of Afghanistan
HR	Human Resource
IARCSC	Independent Administrative Reform and Civil Service Commission
ICE	Inter-Ministerial Commission for Energy
ICCD	Inter-Ministerial Commission for Capacity Development
MAIL	Ministry of Agriculture and Irrigation and Land
M&E	Monitoring and Evaluation
MOEC	Ministry of Economy
MOCI	Ministry of Commerce and Industry
MOF	Ministry of Finance
NGO	Nongovernmental Organization
PDC	Provincial Development Committee
PDP	Provincial Development Plan
PDE	Provincial Director of Economy
PIP	Project Investment Program
PPIP	Priority Project Investment Program
PRR	Priority Reform and Restructuring Program
TOR	Terms of References
UN	United Nations
UNAMA	United Nations Assistance Mission in Afghanistan
UNDP	United Nations Development Program
USAID	United States Agency for International Development