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# Economic Growth & Governance Initiative

Q4 Quarterly Report July—September 2012  
September 2012 Monthly Report

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USAID's Economic Growth and Governance Initiative (EGGI) project continued making strong progress in the fourth quarter of its third project year in supporting GIRoA in budgeting, tax administration, and revenue generation. The program budgeting team assisted the Ministry of Finance (MoF) and budgetary units in the 1392 budgeting process. The project worked with budgetary units to submit the Budget Circular 2 (BC-2) proposals, operating budget, and total tashkeel to MoF. The team also supported budgetary units to present their budget submissions to the budget committee at the budget hearings and supported the budgetary units in budget execution and performance monitoring reporting. Following guidance from USAID, the project team completed a risk assessment of the eight budgetary units that graduated from the project's support in 2010. The risk assessment evaluated the current capacity in implementing the program budgeting and associated reforms, looking at 12 variables related to management, organizational structure, and technical capacity of the budgetary units.

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The project's provincial budgeting team worked to improve coordination and consultation with key stakeholders to support the Ministry of Education's (MoE's) 34 provincial line directorates to prepare budget proposals for the 1392 national budget. The project leadership, with the MoF Provincial Budgeting Unit, also organized a three-day general orientation for provincial budgeting officers on the MoF provincial budgeting reform program and the roles and responsibilities of provincial budgeting officers and a six-day specialized training program on the GIRoA procurement law and processes. This was an effort to increase the provincial budgeting officers' understanding of the MoF provincial budgeting reform program.

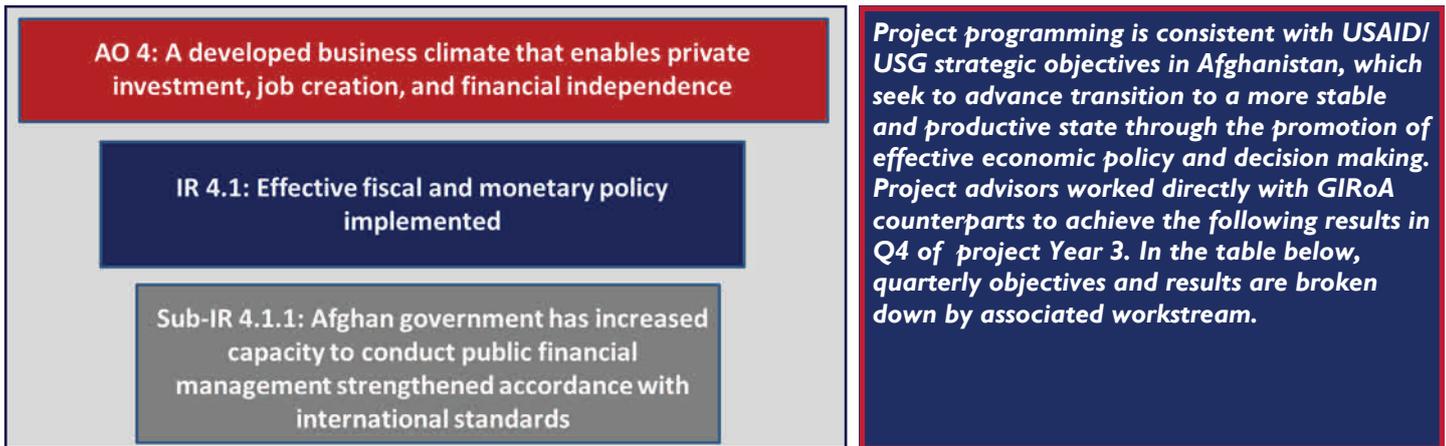
The Women in Government team expanded the Women in Government Internship Program at the provincial level in Herat and established the foundation for the launch of the program in Nangarhar on October 7. Notably, the overall internship program full-time employment rate of interns has increased remarkably from 69% to 83% during this quarter.

The tax administration team sought to assist taxpayer education and outreach programs established at Herat and Mazar Medium Taxpayer Offices (MTOs) and also begin similar processes at Jalalabad and Kandahar MTOs. These outreach programs target groups such as teachers, doctors, clinics, universities and seek to build an awareness and understanding of tax issues and taxpayer responsibilities. In Herat, the MTO Director continued to hold regular seminars for Herat University students on the responsibilities of the tax department and taxpayers. These seminars seek to educate students early so that they are more likely to pay taxes later in life and will pass this knowledge to friends and family members. In Mazar, the MTO continued outreach to taxpayers through radio and television programs. Revenue mobilization and tax return filings increased significantly in most provinces and the outlook appears bright for Jalalabad and Kandahar, which experienced difficulties during the quarter.

## Q4 Recap: Notable Areas of Progress

- 1) Program Budgeting:** Supported 38 budgetary units in the timely completion of their 1392 in budget formulation process, including preparing detailed budget proposals and budget hearing presentations.
- 2) Provincial Budgeting:** Supported the MoF in planning a comprehensive training program on Budget Circular 2 (BC-2) submissions for MoE officials. Conducted regional outreach visits to strengthen provincial directorate and central line ministry coordination.
- 3) Tax Administration:** Collections at the Herat, Mazar, and Jalalabad MTOs exceeded their FY 1391 collections as a result of strong project support - 62% increase in Herat, 63% increase in Mazar, and 78% increase in Jalalabad over the same period in 2011.
- 4) Women in Government:** Achieved an 83% full-time job placement rate for graduated interns. Facilitated the signing of a "Statement of Planned Collaboration" between the team and several GIRoA institutions and expanded the program to Herat.
- 5) Revenue and Tax Policy:** Supported the Non-Tax Revenue Reforms Implementation Working Group to facilitate collection of driver's license practical exam fees of AFN 200 as a new revenue stream.
- 6) Revenue Reconciliation Database (RRD):** Submitted final implementation plan, functional specifications, and prototype for development of a potential web-based revenue system to the Afghanistan Revenue Department (ARD).

## Q4 Objectives in Line with Results



Workstream	Quarterly Objective	Quarterly Results
<b>Revenue and Tax Policy</b>	Continue to support the Working Group, MoF, ARD, MoI, and Kabul Traffic Department officials to review revenue-related processes to determine ways to increase effectiveness and efficiency, and ultimately enhance non-tax revenues.	Supported the Non-Tax Revenue Reforms Implementation Working Group in facilitating implementation of driver's licensing practical exam fees of AFN 200 as a new revenue stream.
<b>Program Budgeting</b>	Support assigned budgetary units to complete FY 1392 budget formulation process in preparing detailed budget proposals and budget hearing presentations.	Supported 38 budgetary units in the completion of their 1392 in budget formulation process including preparing detailed budget proposals and presentations for budget hearings with the Budget Committee. Supported 10 budgetary units to complete the 1391 first quarter performance monitoring report.
<b>Provincial Budgeting</b>	Support the MoE provincial line directorates in prioritizing their needs and preparing estimates for development project proposals for the 1392 national budget process. Continue to support USAID and MoF to resolve funding issues for the remaining three pilot line ministries.	Supported the MoF in planning a comprehensive training program on BC-2 submissions for MoE officials.
<b>Provincial Tax Administration</b>	Prepare technical training modules in enforcement and deliver enforcement training to all provincial enforcement officers, MTO Directors, Audit Managers, and Case Managers.	All training modules were completed. Although, the training was started, it had to be halted and postponed due to security concerns in Kabul.
<b>Revenue Reconciliation Database</b>	Support the RRD Working Group. Complete an assessment and prototype for a potential web-based Revenue Reconciliation System (RRS).	Continued to lead the RRD Working Group. Developed a new prototype for the 2012 RRS. Submitted the final RRS Implementation Plan, technical specifications, and prototype to ARD.
<b>Women in Government</b>	Expand the Women in Government Internship Program and plan and facilitate a high-level GIRoA and USAID event to raise awareness of the program.	Expanded the Women in Government Internship Program to Mazar and Herat and graduated 75 additional interns. To date, the program has achieved an 83% full-time job placement rate for program graduates. Hosted a graduation and placement ceremony with the MoF attended by the USAID Mission Director, Minister of Finance, and other government officials.

# Progress Towards Meeting Objectives

## Program Budgeting

During the quarter, the project's program budgeting team supported 38 budgetary units in their budget formulation process for 1392, including preparing detailed budget proposals and budget hearing presentations. In response to the BC-2 guidance issued by MoF, budgetary units, with support of the project team, submitted detailed projects, operating budgets, and total tashkeel to MoF. As a follow-up to this process, the team also supported budgetary units in presenting and justifying their budget submissions at the budget hearings. Overall, most budgetary units made excellent presentations on their budget submissions to the Budget Committee. Notably, this year the budgetary units developed their own presentations with the support of the project while last year the team developed the budget hearing presentations, demonstrating an increase in budgetary unit capacity. The team also supported the budgetary units in budget execution and reporting, assisting 10 budgetary units to complete the 1391 first quarter performance monitoring reports.

Additionally, the team completed a risk assessment of budgetary units including the eight budgetary units that were graduated by the MoF in 2010 with the project's support. The team conducted the risk assessment to assess the current capacity in implementing the program budgeting and associated reforms. The assessment tool evaluated 12 variables related to management, organizational structure, and technical capacity of the budgetary units. The assessment of the eight graduated ministries shows that these ministries have sufficient capacity to implement program budget and associated reforms in budget formulation, execution, and performance reporting. Both institutional arrangements and trained staff are in place in all eight line ministries to carry out the reform.

**Line Ministries Completed Performance Monitoring Reports for the First Quarter of 1391:** The team assisted 10 line ministries to complete the 1391 first quarter Performance Monitoring Reports (PMR). Line ministries assisted include:

- Ministry of Commerce and Industries (MoCI);
- Ministry of Urban Development Affairs (MoUDA);
- Ministry of Higher Education (MoHE);
- Office of the President;
- Independent Directorate of Local Governance (IDLG);
- Ministry of Labor, Social Affairs, Martyrs, and Disabled (MoLSAMD);
- Ministry of Women's Affairs (MoWA);
- Ministry of Communication and Information Technology (MCIT);



Waheedullah Shahrani, the Minister of Mines, leads the Ministry of Mines FY 1392 Budget Hearing at the Ministry of Finance.

- Ministry of Energy and Water (MEW); and
- Ministry of Transport and Civil Aviation (MoTCA).

Eight of the 10 line ministries were able to meet the MoF July 19 deadline, and the rest submitted after the deadline. The team supported the Budget Implementation Teams (BITs) of the ministries to complete both the financial and the narrative part of the PMRs. The financial section includes the budget execution report at the sub-program level for both the operating and development budgets, and the narrative section reports achievements against the output targets for the sub-programs. During the first quarter of FY 1391, the budgetary units were not able to execute the planned development budgets for that quarter, and the total development budget execution for the government was only 5%. Primary reasons for this low execution rate include the late approval of the national budget by Parliament and the long procurement processes development contracts.

Most ministries continue to face problems in reporting performance indicators such as outputs and outcomes. In general, ministries are primarily able to report key activities and intermediate outputs, and the overall quality of data is weak. This is due to weak data management and a lack of coordination between the departments in line ministries. Most ministries do not have appropriate data storage and management systems or dedicated personnel for performance reporting. The MoF's reporting unit is trying to improve reporting quality with support from the project embedded staff. The team is regularly meeting and coordinating with the MoF's reporting unit in all key activities and is in discussions with MoF on introducing an appropriate data management system for line ministries.

### Thirty Eight Budgetary Units Complete Budget Proposals for the 1392 Budget:

The team supported the 38 budgetary units in completing their 1392 budget proposals through the BC-2 submissions. The following activities were supported by the team:

- Review of the program budget structure, outcome, and output indicators to ensure that the indicators reflect the budgetary units' objectives and priorities;
- Preparation of detailed costing for FY 1392 operating and development budget activities;
- Identification and classification of all needs by major economic codes, including Wages and Salaries (code 21), Goods and Services (code 22), and Acquisition of Assets (code 25) under the relevant operating/development budget activities; and
- Preparation of development projects in coordination with various departments in budgetary units.

As part of this process, the team worked in close coordination with sector managers of MoF within the line ministries. The MoF budget reform unit held a training program for all budgetary units to explain the BC-2 guidelines and the submission forms. BIT members from every budgetary unit attended the training program. In addition, the team briefed the budgetary units' BITs on the guidelines for completing the BC-2 forms. Through these briefings, the team continued to build the budgetary units' understanding of the BC-2 submission guidelines, including specific instructions relating to gender-responsive budgeting, pro-poor budgeting, provincial budgeting pilots, and Operations and Maintenance

*Continued on page 5...*

# Progress Towards Meeting Objectives

## Program Budgeting

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(O&M) budgeting. The data requirements for pro-poor spending and O&M were introduced for the first time for the 1392 budget.

Ideally, MoF should provide budgetary units with more time to prepare their budget proposals, but because of changes in the budget calendar, MoF provided only three weeks. Despite the tight schedule, most budgetary units were able to submit their proposals on time with the project's support and only two budgetary units submitted after the deadline. Most budgetary units, especially those ministries with large infrastructure projects, need additional assistance in project planning design.

### **The Program Budget Team Supports the Line Ministries in Completing the Budget Hearing Presentations:**

In September, the project's program budget team supported 38 budgetary units to prepare budget hearing presentations and justify their budget submissions to the MoF. The budget hearings for FY 1392 started on September 10 and continued through October 2. The budget negotiations for most ministries were led by the Deputy Minister or Director General of Finance. In a few cases, the ministers led the budget negotiations. The Budget Committee was comprised of the Deputy Minister of Economy, Deputy Minister of Finance and/or Director General of Budget, Deputy Minister of Foreign Affairs, and representatives from MoWA, and the Office of Administrative Affairs (OAA).

Even though presentations were made on program structures, budget hearings focused on the codes of the operating budget and individual projects proposed for development expenditure and not on program-based discussions. In most cases, decisions were made on the operating budget during the budget hearings, but development budget decisions – especially on projects funded by core budget discretionary resources – were postponed for further discussion within the Budget Committee and MoF. The team identified the following recommendations to further improve the future budget hearing processes:

- The MoF needs to issue budget ceilings for line ministries, as they did in previous years, and should be able to maintain the ceilings throughout the budget negotiation process. This will encourage ministries to make difficult decisions and determine their priorities for development projects and continuing operating activities. Maintaining hard constraints – with limited flexibility – helps in the finalization of line ministry budgets during the budget hearings. This practice would discourage backdoor lobbying by ministries with the Minister of Finance and Presidential Palace outside the

budget hearing process.

- Donors should commit their assistance early in the budget formulation process. Giving hard constraints to line ministries requires MoF to be able to forecast total budgetary resources well. Given that the majority of the development budget is financed by donors, it is difficult to forecast the available resources early on in the budget process unless donors make firm commitments at least six months before the new fiscal year starts. This requires close coordination between the Government and donors and strong commitment from donors.
- Senior Government officials should participate in the budget hearings. The majority of decisions on the development budget are made outside the budget hearings process. One of the reasons for this was the lack of participation of senior representatives, such as ministers, during the budget hearings. Only a few ministers represented their ministries during the budget hearings. Similarly, for the MoF, important hearings should be led by the Minister of Finance. As a result of this, important decisions are made after the budget hearings process in consultations with ministers and the presidential palace. These practices can undermine the budget hearings process.
- Allocation of resources through a budget hearings process based on results and performance can only be possible with effective performance reporting and monitoring. Even though quarterly reporting has been introduced to the 19 largest line ministries and agencies, some with assistance from the project's program budget advisors, limited performance reporting has been used for resource allocation.

Next steps in the budget calendar are the submission of the draft FY 1392 National Budget by MoF and the Budget Committee to the Cabinet for review and approval. This is expected to happen in mid-October. Once approved by the Cabinet, the draft budget will go to Parliament in late October or early November.

### **The Program Budget Completes Risk Assessment of Eight Graduated Ministries in Program Budgeting Reform:**

At the request of USAID, the project's program budgeting team completed a risk assessment of all eight graduated ministries to assess the current capacity in implementing program budgeting and associated reforms. This risk assessment followed a risk assessment of the 38 supported budgetary units in May and June 2012. The assessment tool evaluated 12 variables related to management, organizational structure, and technical capacity of the budgetary units. The variables assessed represent the

critical areas for program budgeting reform sustainability across all budgetary units. These include: political commitment of the ministry's senior management, active implementation and management of program budgeting reform implementation by the ministry's BIT or Internal Budget Committee (IBC), BIT/IBC member retention, the status of pay and grading reform implementation in the ministry to ensure qualified staff, the extent to which relevant staff are adequately trained in program budgeting reform implementation, staff knowledge and understanding of the Afghanistan National Development Strategy (ANDS)/Sector/ministry strategy, the capacity of key technical staff in program budget preparation, procurement and financial planning, and performance monitoring and reporting. A brief summary of results is as follows:

- All eight ministries have sufficient capacity to implement program budget and associated reforms in budget formulation, execution, and performance reporting. Both institutional arrangements and trained staff are in place in all eight line ministries to carry out the reform.
- All eight ministries have been rated 4.1 or above out of 5, which shows that these ministries were rated "strong" and will not require direct active support from the project to implement the current MoF program budgeting and associated reforms.
- Many of these ministries receive support from existing donor projects in implementing the reforms, but almost all ministries have sufficiently-trained civil servants with the capacity to complete all important processes with minimal support from donor projects.
- The ministries continue to be weak in preparing projects with tools such as cost/benefit analysis and feasibility studies. These ministries need assistance in project planning and design, which helps in the development of better formulated projects and contributes to increased budget execution.
- The ministries need to improve their coordination with MoF senior management and sector managers/focal points and have more regular meetings with MoF.

# Progress Towards Meeting Objectives

## Provincial Budgeting

During the quarter, the provincial budgeting team worked to improve coordination and consultation with key stakeholders, including provincial councils, provincial line directorates, and mustofiats on MoF provincial budgeting initiatives. The team also refined its comprehensive public financial management training program for provincial officials and worked to support the Ministry of Education's 34 provincial line directorates to prepare budget proposals for the 1392 national budget. The provincial budgeting team leadership, with the MoF Provincial Budgeting Unit, also organized a three-day general orientation for the provincial budgeting officers on the MoF provincial budgeting reform program and the roles and responsibilities of provincial budgeting officers as well as a six-day specialized training program on the Government of Afghanistan's procurement law and process. This was an effort to increase the provincial budgeting officers understanding of the MoF provincial budgeting reform program and their roles and responsibilities, while also building their knowledge and skills in the procurement process, which is a weak public financial management area in most provinces.

At the request of USAID, the project hired and deployed 16 additional provincial budgeting officers in July to five new regional hubs (Nimroz, Faryab, Badakhshan, Paktia and Wardak) to expand the team in anticipation of continuing the provincial budgeting pilot program for the 1392 budget year. The expansion of the team was also in response to numerous Provincial Reconstruction Team (PRT) requests for increased provincial budgeting training and technical assistance in key provinces. After successfully hiring and deploying the team to the regional hubs, the MoF then directed USAID to scale back the activity due to the lack of funding for pilot projects for three of the four pilot ministries. By the end of September, the project had scaled back the activity to its initial level of ten provincial budgeting officers in four regional hubs (Mazar, Herat, Jalalabad, Kandahar) and Kabul awaiting final agreement between USAID and MoF on the future scope of MoF provincial budgeting reform. This represented a major challenge for the provincial budgeting workstream during the quarter.

**Budgeting Workshops for Support Ministry of Education Assist Provincial Directorates in Completing Budget Circular Submissions:** From July 2-12, the team supported the MoF in completing a series of regional workshops in preparing provincial development projects for the MoE provincial directorates. These four-day workshops are part of the MoF's effort to prepare the provincial directorates for completing the BC forms for the 1392 national budget. The



The provincial budgeting deputy team lead assists MoE provincial directorate officials in completing BC-2 forms at the Budget Circular workshop in Nangarhar from July 9 – 12.

workshops were held in Herat, Mazar, Kabul, and Jalalabad and targeted 133 directors and administrators of finance and planning. The project funded and organized the workshops, and the provincial budgeting team led the delivery of presentations and facilitation of working group sessions for the workshops. MoE budget representatives participated in the Kabul and Jalalabad workshop providing information for the MoE participants on the ministry's program budget structure.

The MoE, as part of a MoF administered budgeting pilot, was the only participating ministry to succeed in securing funding from their 1391 BC form based budget requests. This year, the three unsuccessful participating ministries will roll their 1391 BC form-based budget requests forward to 1392. The only ministry required to submit new BC forms for 1392 is the MoE, which created the need for the workshops.

Participants completed sample BC-1 and BC-2 forms and had the opportunity to present the completed forms to their colleagues. The provincial budgeting team continued after the regional workshops to support the education line directorates to complete budget circular proposals for the 1392 national budget process. As a result of the project's technical assistance efforts, all 34 education line directorates submitted budget circular proposals to the MoE on time. The project continues to work with MoE on the 1391 pilot funding for the BC -2 project proposals, which is critical to the continued success of the provincial budgeting reform program.

**Provincial Budgeting Officers Coordinate with Education Provincial Departments to Determine 1391 Pilot Project Status:** In late June, the MoE Minister Farooq Wardak

agreed with the MoF and World Bank to allocate \$20 million of new EQUIP funding for the 1391 education pilot projects (\$17 million for the development projects and \$3 million for associated capacity building of education directorate staff). EQUIP is the MoE's national priority program that provided the framework for the 1391 education pilot projects. The MoE was the only ministry of the four pilot ministries to work with the MoF and World Bank to resolve the issue of funding for the 1391 pilot projects. A portion of the new EQUIP funding, \$5 million, was scheduled to be released to the provincial mustofiats in September to enable provincial education directorates to initiate the procurement process for their pilot projects with the balance to be released in 2013 for the 1392 budget process. The MoE revised its 1391 budget to include the additional \$5 million in new EQUIP funding to implement select pilot projects in central region provinces with warm climates by the end of 1391.

As a follow up, the project's provincial budgeting team communicated with provincial education directorate representatives through phone calls and site visits to determine the status of the funding for the education pilot projects. Site visits were conducted in Paktia, Nangarhar, Herat, Wardak, Kandahar, and Balkh. The team also held phone calls with provincial education representatives in Khost, Logar, Laghman, Kunar, Nuristan, Badghis, Farah, Ghor, Parwan, Kabul, Kapisa, Panjshir, Helmand, Uruzgan, Zabul, Baghlan, Sar-e-Pul, Jawzjan, and Samangan. Most of the provincial education directorates had received verbal communication about the new funding from the MoE and were asked to prioritize their

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# Progress Towards Meeting Objectives

## Provincial Budgeting

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projects to determine which will be implemented in 1391 and 1392. The ministry was still finalizing the selection of projects to be implemented in 1391 as the provincial directorates awaited the release of the pilot project funds. Further action is still needed to resolve the funding for pilot projects for the other three pilot ministries—Ministry of Agriculture Irrigation and Livestock (MAIL), Ministry of Public Health (MoPH), Ministry of Rural and Rehabilitation and Development (MRRD)—and their 34 provincial directorates. The MoF and USAID continue to work together to resolve the pilot project funding so the projects can be implemented during the 1392 budget process.

**Provincial Budgeting Team Engages Provincial Councils on Provincial Budgeting Reform:** In order to engage Provincial Councils in the MoF's provincial budgeting activities, the team conducted coordination meetings with the Herat, Nangarhar, Nimroz, and Wardak provincial council representatives throughout September. The purpose of these meetings was to brief the Provincial Council Directors and representatives on the background of the project's support of the MoF's provincial budgeting reform program and on the program's current status. The briefings covered the goals and objectives of the MoF provincial budgeting program, which the project has supported since 2010, and its key accomplishments and activities.

The Provincial Council representatives appreciated the updates and noted how important this reform is for the development of the country at the provincial level. The Herat Provincial Council Director, Dr. Abdul Zahir Faiz Zada, noted that international implementing partners should focus more on building provincial government capacity in budgeting and planning to promote progress and development. He also discussed the current low development budget execution rate and attributed this, in part, to the weak capacity of the provincial government officials in planning

and budgeting. The Nangarhar Provincial Council representatives, Mr. Zabiullah Ahmadzai and Ms. Nafazgul Malikzai, noted that they support the MoF provincial budgeting initiatives in the region and appreciate the trainings and the team's efforts to engage officials through periodic meetings. The representatives also mentioned the need for a provincial monitoring committee that consists of economic and social directorates, provincial council members, and other provincial government officials with full authority to monitor the preparation and implementation of development projects for the province in a fair and transparent manner.

The West Region team met with four provincial council representatives in Nimroz, including Shirin Azizi, Gul Ahmand Monshi, Haji Abdul Razaq, and Mohammad Sadiq Chakhansori. Nimroz provincial council representative, Gul Ahmad, noted that a priority development area in Nimroz is the agriculture sector and building irrigation systems. He also noted that the water system needs to be improved to provide clean water to the province. If provincial councils were given more responsibility, the council would identify development projects in these areas and take some responsibility for regularly monitoring project implementation to ensure successful completion.

The Central Region team met with three Wardak provincial council representatives, including Mohammad Hussain Fahimi, Secretary of the provincial council; Mohamad Younis Majahidzada, provincial council representative; and Abdul Hakim Maghror, provincial council Administrative and Finance Manager. The provincial council representatives noted that they participated in the MoF BC-2 workshop that the project conducted in November 2011 in Jalalabad. While the Provincial Council members had participated in the training, they were not involved in determining the priority projects for agriculture, education, and rural rehabilitation development under the pilot program for Wardak province. The provincial representatives noted that the lack of security is a key factor that affects implementation of



East Region provincial budgeting officers discuss the status of 1391 pilot projects with Mr. Allah Dad, Nangarhar Education Director, during a meeting on September 11.

projects at the district and village level; however, the provincial council members continue to collect requests from their constituents for development projects in their areas and forward them to the relevant provincial directorate for consideration. The project's provincial budgeting teams will continue to conduct periodic coordination meetings with the provincial councils in their regions to strengthen communication and coordination with the provincial councils on provincial budgeting reforms.

**Team Briefs West Region PRT and Regional Command on Provincial Budgeting Reform Progress:** Briefing the regional commands and regional USG representatives is important to establish and maintain working relationships and to strengthen coordination and communication with key stakeholders involved in stabilization efforts in the region. The West Region provincial budgeting team has worked to establish and maintain working relationships with the key USG and military and civil affairs representatives involved in stabilization efforts in the West Region. As part of this effort, on July 18, the team briefed the Regional Command-West on the progress of the project's support for the MoF provincial budgeting reform program. In attendance were 11 high ranking military and civil affairs officials and USAID and US consulate officials. The team provided an overview of the national budgeting system and the history of the project's support for the MoF provincial budgeting training and ongoing technical assistance since 2010.

The briefing was well received by the participants, and a USAID official attending the briefing, Paul Peterson, suggested that the team brief each new regional command since the RC-West staff changes every six months. The team can provide follow up briefings if requested contingent on USAID approval.



The project's Herat provincial budgeting officer briefs four Nimroz provincial council members on provincial budgeting activities during a September 22 meeting.

# Progress Towards Meeting Objectives

## Provincial Tax Administration

During the quarter, the tax administration team sought to maintain assistance in providing taxpayer education and outreach programs established at Herat and Mazar MTOs and begin similar processes at the Jalalabad and Kandahar MTOs. The workstream was completely successful in Herat, less successful in Mazar and Jalalabad, and experienced challenges in Kandahar.

Despite these setbacks, tax administration experienced a moderately successful quarter. Revenue mobilization and tax return filings increased significantly in most provinces, and the outlook appears bright for Jalalabad and Kandahar, which experienced difficulties during the quarter.

In Mazar, tax administration lost its civilian employee and was unable to obtain appropriate information to provide adequate service and reporting. Jalalabad MTO was in the process of completing installation of offices and units necessary to carry out tax administration functions. Although there was some success, it was hampered by the low level of tax officer capacity. In Kandahar, tax administration also lost its civilian employee. This coupled with the disarray in most MTO functions made it difficult to achieve success.

**Herat MTO Shows Significant Improvements in Revenue Mobilization and Tax Return Filings:** The project's tax administration team continued to support the MTO Director to maintain a high-level of engagement in taxpayer education and outreach programs, which the director followed throughout the quarter. As a result, revenue collections during September improved by 51% (31,416,132 AFN compared to 20,767,912 AFN during August). Total annual revenue collection is currently 233,084,359 AFN, which is 62% increase over the same period in 2011 when collections were 143,912,136 AFN. Additionally, revenue collections for the quarter increased by 58% over the same quarter in 2011 (111,059,839 AFN in 2012 compared to 70,415,648 AFN in 2011). Herat MTO has collected 67% of its

MTO Total Revenue Collection (March 20, 2012 to September 21, 2012)			
Code	Description	Herat	Jalalabad
		AFN	
11100	Sole Proprietary Traders	130,955	-
11105	Govt Contracts Goods Services	17,888,604	34,906,578
11200	Employee Wage Withholding	35,462,933	75,658,747
11201	Declaration Income (PIT-Ind.)	13,550,475	1,228,968
11202	Company Income Tax (PPE)	24,642,501	1,374,823
11203	Profits, coop, Social (CIT-Coop)	-	7,385,501
11207	Rental Services Withholding	6,459,493	4,606,614
11213	Contract Withholding Tax	19,810,569	-
11303	Tax Sale Movable Prop	936,533	-
11401	Receipts Pvt Entit. (BRT) 2 %	90,503,110	3,207,280
11402	Receipts SOE (BRT-SOEs) 5 %	145,251	-
11403	BRT on Service - 10 %	-	5,177,474
11700	Overdue Income Tax (Penalties)	3,035,612	-
11701	Fines BRT-Penalties	8,870,025	1,008,657
11702	All Other Tax Penalties	7,518,700	-
13343	Sukook Revenue	19,500	16,020
13348	Broker License Fee	3,685,000	-
17100	Pre Pay & Grade Government Employees	212,636	-
21999	Employee Wage Withholding Pay Back	60,911	-
22999	Expenses Return	151,551	-
<b>Total</b>		<b>233,084,359</b>	<b>134,570,662</b>

2012 collection goal of 350,000,000 AFN.

Additionally, Herat MTO filed 277 tax returns during the month of September, bringing the annual filing to 5,859, which represents a 111% increase over the same period in 2011, and indicates that the taxpayer education program continues to pay substantial dividends.

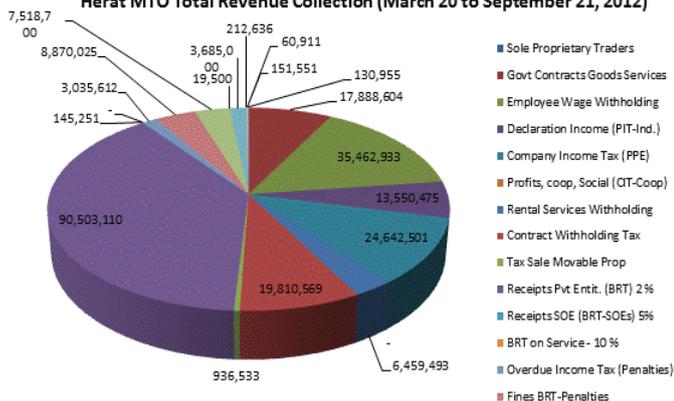
**Mazar MTO Continues Improvement in Revenue Collections:** During the quarter, Mazar MTO collected 90,256,349 AFN, which brings the MTO to 63% of its collection goal for 2012. The MTO collected 27,432,960 AFN in September. The Mazar mustofiat has been experiencing malfunctioning of its accounting database and is unable to provide accurate comparison data beyond that presented in this report. Additionally, the project advisor has been unable to obtain tax returns filing data for this reporting period. However, it is clear that Mazar continues its improvement although data is currently unavailable for comparison.

### Jalalabad MTO Improves Collection:

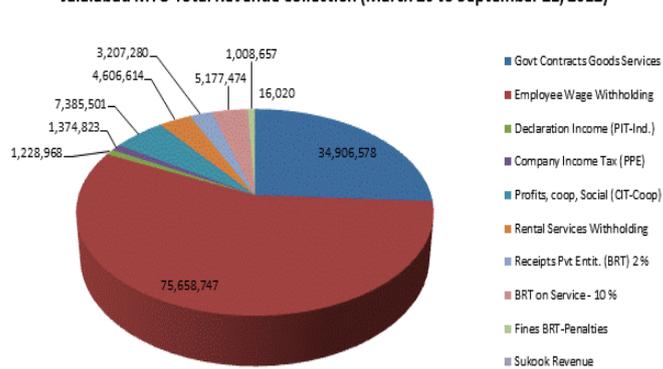
Jalalabad MTO is still in the process of installing some offices; however, these shortfalls have not impeded progress in mobilizing revenues. During September, Jalalabad MTO collected 16,709,929 AFN, which represents a 47% improvement over the same period in 2011 when the MTO collected 7,785,546 AFN. During the quarter, the MTO collected 72,038,554 AFN, a 57% improvement over the 41,338,174 AFN collected in 2011. To date, Jalalabad MTO has collected 134,570,662 AFN, which represents 78% of its 2012 collection goal of 185,000,000 AFN.

The advisor continues to work with Jalalabad MTO Director to report tax returns filings; however, progress is slow in this capacity and data is not currently available.

Herat MTO Total Revenue Collection (March 20 to September 21, 2012)



Jalalabad MTO Total Revenue Collection (March 20 to September 21, 2012)



# Progress Towards Meeting Objectives

## Women in Government

During the quarter, the Women in Government team managed the hands-on training and mentoring of 120 interns and launched the internship program in Herat province. The team also began to prepare for the expansion of the internship program to Nangarhar province, which will take place at a ceremony at the Governor's office on October 7.

The overall program rate of full-time employment for internship graduated increased from 69% to 83% during the quarter, with an additional 75 interns graduating and 59 interns finding full-time employment throughout the quarter. As of September 2012, the Women in Government Internship Program provided 190 internships opportunities.

Additionally, during the quarter the interns began volunteer activities as part of the internship program. These interns worked with local schools to promote hygiene and good nutrition.

**Program Achieves 83% Full-Time Employment for Graduated Interns:** During the quarter, the team focused on helping graduated interns find full-time employment through facilitating agreements with government employers and assisting interns to apply for positions. Overall, the team increased the program full-time employment rate from 69% to 83% throughout the quarter. In this quarter, 75 interns graduated from the internship program. These interns completed internships with the MoF, MoPH, Kabul Medical University, Ministry of Mines, National Olympic Committee, Ministry of Urban Development Affairs, MoWA, and MAIL. Throughout the program, interns receive on-the-job training and attend regular workshops that help them develop skills needed to obtain full-time employment.

From July to September, 59 interns found full-time employment. This is the result of ongoing efforts of the team through continued networking and systematic planning with HR Directors of different institutions for better development of the internship program and placement of interns as a permanent employee of government. The team also held a workshop for the interns, who are graduated from the six-month internship program but have not yet managed to find full-time employment, encouraging the interns to stay active in their job search. The team identified a number of available jobs at government institutions and helped the interns update their CVs, write cover letters, and apply for the positions. All of the interns had identified potential positions and planned to submit their applications. The team will follow up as they continue with the application process.



Thirty interns graduated from the Women in Government Internship Program, who completed their four-month internships at the Ministry of Finance and hired as full-time employee within the ministry.

**Women in Government Internship Program Launched in Herat:** In September 17, 2012, the Women in Government internship program team officially launched in Herat province. Key GIRoA officials from Herat, including the Deputy Governor, as well as other government officials and USAID's Herat team attended the event. The 20 new female interns will begin internships at the Governor's Office, the Department of Women's Affairs, Herat University, and the Civil Service Commission on October 1.

During the event, GIRoA officials expressed appreciation for the internship program that advances the political, social, and business opportunities for women. GIRoA officials also signed letter of agreements, outlining the expectations of all parties during the internship. On September 18, the team conducted an orientation workshop that introduced interns to the internship program. The interns learned about the goals of the program, intern roles and responsibilities, reporting procedures, and expectations of the government institutions and the Women in Government team. The project will also expand the internship program to Nangarhar, and a launch event is scheduled for October 7 in Jalalabad.

**Thirty Female Interns Hired as Full-Time Employees at the Ministry of Finance:** On August 29, thirty women graduated from the Women in Government Internship Program at the MoF. The women completed a four-month internship program and were recognized at an official graduation ceremony attended by the Minister of Finance, Dr. Omar Zakhilwal; USAID Mission Director, S. Ken Yamashita; Director of Independent Administrative Reform and Civil Service Commission, Dr. Ahmad Meshahid; a number of high-level officials from other ministries, and media.

In March 2012, USAID and MoF signed an agreement to establish 100 internship positions for recent female graduates at the ministry through the year. These women were the first group to complete a four-month internship program at the ministry and were hired as full-time employees at the ministry. Speaking of the commitment of the MoF to increasing the number of women in government, USAID Mission Director Dr. Yamashita stated, "It is when we see leadership of this kind that we are able to see changes in our lifetime, changes in a few short months."

The interns were assigned to various departments based on their internship training and educational background. Currently, only 18 percent of government employees, and 5.6 percent of MoF employees, are women. The Women in Government Internship Program supports the ANDS commitment to increase the number of women in government to 30 percent by 2013. During the event, Minister of Finance Dr. Zakhilwal stated: "The Ministry of Finance is committed to providing more opportunities for women. We feel that this program has begun a new initiative, which will help develop Afghanistan."

**Comprehensive Capacity Building Workshops Delivered to Interns in Kabul and Mazar-e-Sharif:** During the quarter, the team continued to conduct capacity building training workshops for the interns in Kabul and Mazar-e-Sharif. The purpose of the trainings is to develop the basic skill of interns in management, business writing, communications, self-confidence, curriculum vitae development, English language, and information technology.

Additionally, the team continued to hold ori-

*Continued on page 10...*

# Progress Towards Meeting Objectives

## Women in Government

*Continued from page 9...*

entation sessions for new interns. The interns are recent university graduates, and most of them were hired through a formal partnership established between the project and Kabul University. The team presented information on the program and outlined the roles and responsibilities of the interns during their internship period. These interns will be given a chance to find full-time jobs with different ministries and government institutions upon their graduation from the six-month internship program.

### **Interns Providing Voluntary Services in**

**Kabul:** In September, several groups of interns and Women in Government team members participated in volunteer activities as part of the internship program. The interns visited Lame Shaheed High School in Kabul and deliver presentations to the students on nutrition and hygiene. According to a number of school's staff this type of program and presentation will be successful in bringing changes at the grass roots level.

Volunteerism is a key aspect of the Women in Government Internship Program, which helps interns understand the importance of giving back to their community, learn how to interact with different people and build presentation skills. The Women in Government team plans to continue to work with the school and provide more interns for volunteer activities.

On September 22, 2012, second grade students at Lame Shaheed High School attend a presentation on nutrition and hygiene from Women in Government interns.



# Progress Towards Meeting Objectives

## Revenue and Tax Policy / Non-Tax Revenue

During the quarter, the project advisor continued to support the ARD Non-Tax Revenue Directorate and the Non-Tax Revenue Reforms Implementation Working Group to identify opportunities to increase revenue collection through the identification and implementation of reforms at the MoI Traffic Directorate. The advisor worked with the Non-Tax Revenue Directorate and the Working Group to coordinate a number of meetings with senior officials from the Anti-Corruption Commission and the MoI to explain and gain buy-in for proposed revenue reforms.

The Working Group was successful in beginning the implementation of small-scale reforms for the new driver's license practical exam fee, which will establish an official revenue stream and decrease the opportunity for corruption. This reform will enhance driver's license revenue collection by an estimated 10-15 million AFN annually and encourage more comprehensive reforms at the MoI Traffic Directorate.

The advisor also expanded project support to ARD to include improving non-tax revenues from state-owned enterprises. The advisor worked with the Non-Tax Revenue Directorate to plan a one-day workshop for state-owned enterprises on non-tax revenue scheduled for October 7.

**Implementation of Small Scale Reforms at Ministry of Interior Traffic Directorate Could Result in Increased Collections of 10-15 million AFN Annually:** In September, the Working Group supported the implementation of the new driver's license practical exam fee revenue stream. The ARD Traffic Directorate approved the establishment of a flat fee of AFN 200 for each driver's license exam in May 2012, but the traffic officials had delayed the actual implementation of the fee. Prior to the establishment of the driver's license practical exam fee, traffic officials charged applicants unofficially. Applicants were also charged different amounts, with many paying up to 2,000 AFN.

The Working Group continued their discussions with the ARD, the MoI Traffic Directorate, and the Kabul Traffic Department about the delayed implementation and loss of potential revenue, and the Traffic Directorate implemented this new revenue stream on September 2. This will enhance driver's license revenue collection by an estimated 10-15 million AFN annually. The driver's license practical exam fee is deposited in the Kabul Traffic Department's driver's license account at the Central Bank. Within six months, the initiative will be extended to all other provincial traffic departments. Although implementation of this new revenue stream will not sig-

nificantly increase revenue, it is an important first step towards small-scale reform implementation within the Kabul Traffic Department that will pave the way for more comprehensive reforms in the Traffic Directorate.

**Advisor Expands Support to Collection of State-Owned Enterprise Non-Tax Revenues:** In September, the project advisor supported the ARD Non-Tax Revenue Directorate in addressing state-owned enterprise non-tax revenue collection and began planning a one-day workshop on proposed reforms. Currently, there are 38 state-owned enterprises under the auspices of different ministries operating in the industrial, commercial, service, construction, and agriculture sectors in Afghanistan. According to the data collected from MoF Afghanistan Financial Reporting System (AFMIS) and the General Directorate of state-owned enterprises, there is no clear financial reporting system for state-owned enterprises, there is no mechanism to differentiate tax and non-tax revenue collection, and the revenue is collected to the tax-related and miscellaneous accounts.

Following a comprehensive analysis of the current state-owned enterprise financial reporting system, the Non-Tax Revenue Directorate outlined reform recommendations with the technical support of the project. Recommendations include developing a new financial reporting form and a specific bank account for the non-tax revenue collection and promoting awareness of the proposed reforms among Kabul and provincial state-owned enterprises through a one-day workshop. The advisor assisted the ARD Non Tax Revenue Directorate to prepare for the state-owned enterprises workshop on non-tax revenue collection scheduled for October 7. The advisor assisted the Non Tax Revenue Directorate to communicate the proposed state-owned enterprises revenue collection reforms with the government entities and obtain their agreement to deliver a presentation on the reforms, including the use of new bank account and financial reporting of non-tax revenue collection. State-owned enterprises revenue reporting reforms have been communicated with all involved entities and their official agreement and approval has been obtained. The non-tax revenue reforms workshop will facilitate state-owned enterprise non-tax revenue collection and will communicate the proposed reforms that will help state-owned enterprises differentiate collection of tax and non-tax revenue.

Ninety-six participants attended the event, including 65 representatives of state-owned enterprises, officials from USAID's office of economic growth and infrastructure, and high-level government officials. The Deputy Minister of Revenue and Customs, Mr. Mobin Shah, opened the event, and Director General of

ARD, Dr. Zamanzai, and the Director General of State-Owned Enterprises, Mr. Ansari, also spoke at the event.

**The Non-Tax Revenue Reforms Implementation Working Group Discusses Possible Use of Mobile Money Payments for Traffic Fine Collection:** To improve traffic fine payment compliance and increase government revenue, the Non-Tax Revenue Reforms Implementation Working Group began discussions with Roshan mobile company on the possible use of mobile money payments for collecting traffic fines. On August 12, the Working Group met with Roshan M-Paisa representatives to explore the possibility of using the Roshan M-Paisa initiative to collect traffic fines. Meeting participants included Fatima Popal, the M-Paisa Business Development Manager; Sayed Kalimullah Abed, the M-Paisa Accounts Sales Executive; Amina Ahmady, Non-Tax Revenue Director; Hejrat Malakezai, Non-Tax Revenue Manager; and the project advisor.

Roshan M-Paisa operates throughout Afghanistan and offers safe, reliable, and fast access to a range of financial services including bill payment. This service facilitates the transfer of money using a mobile phone through Short Message Service (SMS) and an Interactive Voice Response (IVR) system. The IVR menu is available in Dari, Pashto, and English, which is important with the high illiteracy rate of vehicle owners and drivers in Afghanistan. The Roshan M-Paisa mobile network is available in 230 cities and towns in all 34 provinces. The Working Group discussed the current process and how mobile money payments could be applied to traffic fine collection. The Working Group also shared the following key concerns:

- The MoI Traffic Directorate requires the ability to generate reports on M-Paisa transactions.
- Over 50% of drivers are illiterate, so MPaisa would need to determine the effectiveness of the IVR system that guides customers through the transaction process.
- Drivers use several different mobile networks, so M-Paisa would need to determine whether other mobile network users could use the service.

The M-Paisa representatives agreed to research the concerns. The team also plans to meet other mobile companies to discuss the possible use of mobile money payments for collecting traffic fines. Implementation of this initiative will facilitate traffic fines collection; improve transparency, increase government revenue and, most importantly and decrease corruption.

# Progress Towards Meeting Objectives

## Revenue Reconciliation Database

During the quarter, the RRD team conducted an assessment of the environment at ARD that included several interviews with ARD leadership, including the Deputy Minister of Revenue and Customs, Director General of Revenue, and Director of Planning. Based on the team's assessment it was evident that there is a low level of host country commitment, limited resource availability, and the lack of a strategy to sustain a future web-based system after project disengagement.

Citing these factors, the advisor recommended a budget and human resources plan that would permit the design and deployment of a new system and provide for its operation and maintenance for one year with USAID funding. To obtain some level of commitment and mitigate post-disengagement risks, the advisor also recommended that this support be provided on the condition that a USAID and ARD sign a Memorandum of Understanding (MoU) that would commit country resources and funding after the project's disengagement. With the high risks surrounding this work and the low probability of a signed MoU or its execution if it were signed, these plans did not advanced following discussions with project leadership and USAID. Another effort to establish a commercial-off-the-shelf system for tax revenue (SIGTAS) has been in place for several years, which also includes, as part of its base functionality, a module for permits and licenses in addition to tax revenue collection. With the plans for SIGTAS, redundancy and work duplication was another factor for discontinuing plans to develop a custom based

solution.

Based on these conclusions and per USAID direction, the project discontinued activities related to the development of a future web-based system. The RRD team instead focused on the following activities:

- RRD application version control: Based on a review of the current application deployed at the mustofiats, it was found that different versions of the system were deployed nationwide. This introduced different functionality, different reporting outputs, and different end user expectations. The RRD team streamlined these different versions into one stable release offering the latest functionality.
- RRD application defect remedy: The current RRD application suffered from a number of technical defects that were primarily caused by how the application uses software dependencies to function properly. The RRD advisor addressed these defects and consolidated fixes into one stable release.
- RRD standard software image: A standard software image was produced for the RRD application to allow technical staff to more efficiently deploy the application following a standard set of instructions and documented software requirements. The standard software image added security restrictions that would prohibit end users from accessing operating system functionality beyond launching and using the RRD software. This was done to prevent misuse of the software,

which is one of the root causes contributing to system failure at the mustofiats

- Technical documentation: The technical documentation for the RRD application deployment was not thorough and, in many cases, incorrect. The RRD advisor updated the technical documentation for technical and end user staff.
- Project management plan including scope, schedule, and costs for stabilizing the system at six priority provinces: The advisor developed a plan for remediating issues with the current RRD application in six priority provinces that will be implemented in Year 4 of the project.

Throughout September the RRD team focused on engaging stakeholders in order to reach a consensus on deploying the Revenue Module in AFMIS to address ARD's revenue capture, reconciliation, and reporting needs instead of RRS 2012. A workshop for key stakeholders such as World Bank, ARD, MoF Treasury, and USAID was planned for September 24, but the workshop was cancelled by ARD and has not yet been rescheduled.

# Workplan Challenges

## Program Budgeting

**Challenge 1:** The recent risk assessment indicates that MoF needs to demonstrate its commitment to program budgeting reform and create a roadmap for the implementation of this reform. Budgetary units need direction and active communication from MoF, without which program budgeting reform is not expected to make progress.

**Challenge 2:** MoF did not issue budget ceilings to line ministries for the 1392 budget, although MoF has set ceilings for the operating and development budgets for the past 4-5 years. The lack of ceilings make budget negotiations a fully open-ended process, which is one of the reasons for line ministry development budgets are finalized only after the budget negotiations. This practice undermines transparency of the budget process.

**Challenge 3:** The short deadline set by MoF for budget submissions for the 1392 budget is a challenge for ministries to submit fully prepared projects. Ideally, line ministries need at least two months to prepare projects and submit budget proposals to MoF. The lack of having fully prepared projects leads to lower budget execution rates.

**Challenge 4:** Budget negotiations are primarily based on the operating budget codes and individual projects proposed for development expenditures. This leads to a line item incremental budgeting instead of program-based results budgeting. Even though current budget allocations are not program-based appropriations, program budget discussions lead to better alignment of resources with outputs and outcomes.

## Provincial Budgeting

**Challenge 1:** At the request of USAID, the project hired and deployed 16 additional provincial budgeting officers in July to new regional hubs in Nimroz, Faryab, Badakshan, Paktia, and Wardak to expand the team in anticipation of continuing the provincial budgeting pilot program for the 1392 budget year. This expansion was also in response to PRT requests for increased provincial budgeting training and technical assistance in key provinces. After successfully hiring and deploying the team to the regional hubs, the MoF then

directed USAID to scale back the activity due to the lack of funding for pilot projects for three of the four pilot ministries. By the end of September, the project had scaled back the activity to its initial level of ten provincial budgeting officers in four regional hubs (Mazar, Herat, Jalalabad, Kandahar) and Kabul awaiting final agreement between USAID and MoF on the future scope of the project support to MoF in provincial budgeting reform. These changes presented a major challenge for the provincial budgeting workstream this quarter.

## Provincial Tax Administration:

**Challenge 1:** The development of Kandahar MTO continues to face challenges. The taxpayer service unit has not been installed, and the audit unit is only partially installed. Both units are integral to the efficient operation of the MTO, and the collection of revenues will continue to suffer without these units. The advisor has provided technical training to tax officers and will continue such training to improve capacity as necessary. Additionally, the absence of local project staff at Kandahar MTO has further negatively impacted tax administration activities and services at that facility. The advisor is in the process of replacing the project staff and anticipates improvements following this hiring.

**Challenge 2:** To a lesser extent, Jalalabad MTO faces challenges in its development, which is negatively affected by the advisor's inability to have physical presence there. During the coming months, the advisor will attempt to visit Jalalabad MTO if security conditions allow.

## Women in Government

**Challenge 1:** The lengthy and slow government recruitment process and the inability of government institutions, at times, to hire interns upon completion of the internship program continues to be a challenge in achieving full-time employment for graduates. Although government institutions make specific commitments to offer full time employment to interns, organizations do not always fulfill their commitments.

**Challenge 2:** While interns are placed in internships with government institutions, some program graduates are not interested in full-time positions with the government because of the low salaries.

## Revenue and Tax Policy / Non-Tax Revenue

**Challenge 1:** The Non-Tax Revenue Reforms Implementation Working Group reviewed the revenue streams at the MoI Traffic Directorate, including vehicle registration, driver licensing, and traffic fines. The working group identified challenges to revenue collection in these processes and recommended both comprehensive and small-scale reforms that will streamline procedures and importantly decrease corruption involved at each and every step of the process. The successful implementation of these reforms require MoI and Traffic Directorate support, particularly that of the MoI Deputy Minister of Security and Traffic Director, but MoI Traffic Directorate management is not currently ready or willing to implement these reforms and lose extraction of unofficial money. The non-tax revenue advisor and the ARD Non-Tax Revenue Directorate continue to work closely with MoF and the Anti-Corruption Commission and Parliament to build MoI and Traffic Directorate understanding and support for reforms implementation.

## Revenue Reconciliation Database

**Challenge 1:** Resource and software availability are an ongoing challenge at ARD that will hinder the support of the current application and any potential development of a future revenue system. Based on the revenue reconciliation team's thorough assessment of the challenges at the mustofiat level it is obvious that the mustofiats lack competent and dedicated resources to remedy technical problems.

# Other Workplan Activities

## Program and Provincial Budgeting

**The Independent Directorate of Local Governance and Ministry of Women Affairs Conducted Budgeting Workshops for Provincial Finance Managers:** With the support of the project team, the Independent IDLG and MoWA conducted budgeting workshops for provincial finance and administration directorates to explain the budget formulation process and engage provincial finance managers in the preparation of operating budget estimates for 1392. Both workshops were fully supported by the project's budget team and included presentations on key aspects of budget formulation, with a particular focus on program budget reform. The IDLG workshop was held during August 4 – 7, and the MoWA workshop was held on August 14. The purpose of these workshops was to train the provincial finance staff on preparing operating budget estimates for the 1392 budget process, provide an overview of the program budget, and introduce ministry priorities.

Participants from 29 of the 34 provinces attended the IDLG workshop, and participants from 32 of the 34 provinces attended the MoWA workshop. The participants showed a keen interest in learning about the budget process and developing operating budget estimates. The workshops are expected to facilitate close coordination and communication between provincial directorates and the budgetary units, which will help provinces have larger role in budget formulation and execution.

These ministry-led workshops show increased interest among ministries in engaging provincial finance officers in the budget processes and were the first of their kind initiated by the ministries to involve provinces in the budget process. Additional workshops are expected to be organized by other ministries next year. These workshops provided an opportunity to further integrate program and provincial budgeting activities and strengthen coordination and communication between line ministries and provincial directorates. For the next budget formulation cycle, the team will encourage other key line ministries to conduct similar workshops for their provincial directorates in order to further involve the provinces in the budgeting processes.

**Provincial Budgeting PFM Training Program Cancelled Pending Decision by MoF and USAID:** In August, the provincial budgeting team prepared for the MoF Public Financial Management (PFM) training program that was to be delivered to provincial officials across the 34 provinces from September through December. The team finalized the training modules, printed the materials, invited provincial officials to the training program, and finalized logistics for the first two training events to be held in Mazar and Herat. The six-day PFM training program consisted of delivery of ten public financial management modules, working group sessions with practical exercises and case studies to provide hands on experience with key PFM concepts.

The team also coordinated with the USAID Initiative to Promote Afghan Civil Society (I-PACS II) to provide information on the planned training program and engage civil society organization (CSO) partners in the budget process per USAID guidance. The team shared the training materials and schedules with the CSO partner organizations to enable the CSO representatives to attend the training workshops as observers. The MoF later decided to cancel the PFM training program pending a joint decision by the MoF and USAID on whether technical and financial assistance should continue for the provincial budgeting reform activities.

**Project Advisors Outline Suggested Milestones for Implementation of the Tokyo Framework:** Following the July Tokyo Conference, the MoF developed a proposal for implementation of the Tokyo Mutual Accountability Framework. This proposed implementation plan did not yet include key milestones or timelines. In response to a request from USAID, the project advisors prepared an outline of proposed milestones and timelines for accomplishing GIRoA commitments to public financial management reform described in the framework indicators. These indicators address the following areas:

- Improving overall public financial management;
- Increasing tax revenues significantly through a more efficient, transparent, and accountable customs and tax system;
- Improving development budget execution to 75%;
- Enacting a legal framework to clarify roles and responsibilities of government agencies at the national, provincial, and district levels; and
- Developing a process to incorporate provincial inputs into the budget formulation, linked to the provincial planning process.

For the final indicator related to provincial budgeting reform, the project advisors recommended the following actions:

- Enact draft legislation for local administration (provincial and districts) and provincial councils to include strengthening the Provincial Council's consultative role in the provincial planning process and clarifying roles and responsibilities of provincial government in the budget and planning process.
- Implement necessary administrative reforms as per the enacted legislation for local administration to implement provincial planning and budget processes.
- Implement MoF's medium-term approach to provincial budgeting reform to include:
  - Conduct an assessment of regional fiscal inequalities;
  - Develop and implement a formula for norm-based provincial allocations for a more equitable distribution of resources across the 34 provinces; and
  - Develop and implement a policy on O&M costing and integrate the O&M costing into the budgeting process.
- Improve technical capacity of financial and administration officers in provincial departments in public financial management through structured and systematic training to include:
  - Provincial budgeting, national priority programs, and the national development strategy;
  - Budget formulation process and completing budget circulars;
  - Budget costing; and
  - Chart of accounts.

The project advisors are currently assisting the government's ministries and agencies in taking action to address indicators 7 and 10. Indicator 7 focuses on implementing the Public Financial Management Action Plan, improving Public Expenditure and Financial Accountability ratings, and raising the Open Budget Initiative score. The team's continued support to the 38 budgetary units in budget formulation, execution, and reporting in close coordination with MoF helps GIRoA address these issues. Indicator 10 focuses on improving budget execution to 75% by 2017. The team continues to support the budgetary units in improving budget execution rates.

# Other Workplan Activities

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## Provincial Tax Administration

**Intermediate Afghanistan Tax Law Training Delivered to Kandahar and Jalalabad Tax Officials:** During July 8-10 and 15-17, the project's tax administration team delivered Intermediate Afghanistan Tax Law training to 38 MTO and LTO officials from Kandahar and Jalalabad and two tax administration analysts from the project. This was the first tax law training for officers from Kandahar and the second training for officers from Jalalabad. A basic tax law training was delivered in Jalalabad in January 2011. Additionally, the training fulfilled a specific request by the Director General of ARD to provide technical training for MTO officers. The trainings took place in Kabul at the Millie Bus MTO and were followed by a client service class delivered by Adam Smith International (ASI). Each participant was required to sit for a post-training assessment and receive a score of at least 70 before receiving a completion certificate; all passed with scores between 73 and 100.

Additionally, delivery the second training by the tax administration analyst from Herat provided the opportunity for the Herat analyst to gain experience in delivering tax law training in a Train-the-Trainer format. This will prepare the analyst to teach this and other tax law courses at his MTO without assistance from the advisor.

**The Tax Administration Team Purchases Equipment for the Large Taxpayer Office in Nangarhar:** On September 20, the tax administration analyst and purchased IT equipment and stationary for the LTO. The tax administration analyst submitted the tools to the LTO Director, and the LTO Director and Managers provided the project with a letter of appreciation that acknowledged the receipt of the tools and thanked the project for its support of the LTO.

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## Women in Government

**Women in Government Team Visits Mazar-e-Sharif Interns:** During June 30 - July 2, the gender analyst visited the interns in Mazar-e-Sharif to assess program strengths and areas for improvement and resolve issues faced by interns in their assigned provincial departments. During the three-day visit, the analyst found that the provincial departments in Mazar-e-Sharif do not have Tashkeels and most of the interns were struggling with work outside of their educational backgrounds. The analyst met with Balkh University, the Urban Development Affairs

Department, and the Independent Human Rights Commission to resolve these issues and to re-assign the interns to new departments better suited for their backgrounds and university degrees. The interns were re-located from the Women Affairs to Balkh University, the Urban Development Affairs Department, and the Independent Human Rights Commission. These re-assignments provide the interns with new positions better suited their backgrounds and allow them better opportunities to develop their professional skills.

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## Revenue and Tax Policy / Non-Tax Revenue

**MoI Traffic Directorate and MoF Revenue and Customs Division Reach an Initial Agreement on the Move of the Kabul Customs Document Verification Function:** On July 14, the advisor facilitated a high-level agreement on the move of the Kabul Customs ASYCUDA vehicle registration document verification function from MoF Revenue and Customs division to the MoI Traffic Directorate. This move will provide an opportunity for the Traffic Directorate to access the ASYCUDA data system, match documents presented by applicants against live ASYCUDA records, and help prevent forgery. This reform also promises to reduce the current timeframe of vehicle registration (currently up to three weeks) to just a few hours, streamline current procedures, reduce corruption, increase the number of vehicle registrations, and enhance associated official revenue collection. Currently all vehicle owners who want to register their vehicles need to provide Kabul Customs with a hard copy of the corresponding customs entry form from the Customs ASYCUDA computer system. The customs forms are matched with ASYCUDA data in the Kabul Customs Office and are then sent to the Traffic Directorate, which can take up to three weeks. To finalize these discussions, the advisor developed an agreement that both MoI Traffic Directorate and MoF Customs Department agreed sign in early August 2012, but this was rejected by traffic management for unknown reasons. The Non-Tax Revenue Reforms Implementation Working Group plans to address this concern with the Deputy Ministers and Ministers of MoF and MoI to gain high-level support.

**Process Mapping of Ministry of Interior Traffic Fines Collection Process Completed:** In August, the project advisor and the Non-Tax Revenue Reforms Implementation Working Group reviewed and mapped the traffic fines collection process at the Ministry of Interior (MoI) Traffic Directorate. The Working Group's findings indicate a process that is overly complex, vulnerable to unofficial revenue collection and misuse of funds, and lacks transparency. Following official approval from MoI Traffic Directorate management in early August, the Working Group visited traffic fine collection offices at the Traffic Directorate, Kabul Traffic Department, and other government entities involved in traffic fine collection and processing. The Working Group observed processes and conducted interviews with officers, vehicle owners, and drivers. Currently, there is no systematic way to identify speed or other violations in cities or on the highways. The process also lacks tools to help police identify vehicle registration and driver's license validity. The Traffic Directorate does not have the capacity or enforcement mechanisms to support compliance, collect lost revenues, reduce automobile accidents, or improve public safety, limited capacity and the lack of a systematic mechanism for collecting traffic fines result insignificant revenue collection. The Working Group developed a detailed overview of the traffic fine collection process that can be used as a benchmark from which to develop recommendations for improvement.



# Project Activities by Regional Command

## Regional Overview Continued

### Regional Command North—Balkh, Badakhshan

**Tax Administration:** During the quarter, Mazar MTO collected 90,256,349 AFN, which brings the MTO to 63% of its collection goal for 2012. The MTO collected 27,432,960 AFN in September. The project advisor was unable to obtain tax returns filing data, but Mazar continues show improvement although data is unavailable for comparison at this time.

**Provincial Budgeting:** On September 3, the Badakhshan provincial budgeting officers met with the Economy Director of Badakhshan province, Abdul Qafoor Qafoori, to provide information on MoF provincial budgeting reform activities. On September 11, the provincial budgeting team met with the Education Director of Badakhshan, Mr. Abdul hai Yashen,

to request information on the status of funding for the 1391 education pilot projects. The provincial budgeting team also met with the Balkh Education Finance Manager, Mr. Muhammad Nabi, to determine the status of the funding for the 1391 education pilot projects. The team also conducted phone calls with provincial education representatives in Baghlan, Sar-e-Pul, Jawzjan, and Samangan. The education directorates had prepared their procurement plans and were still awaiting the receipt of education pilot project funding to be released from the provincial mustofiat.

**Women in Government:** The team delivered regular capacity building workshops to



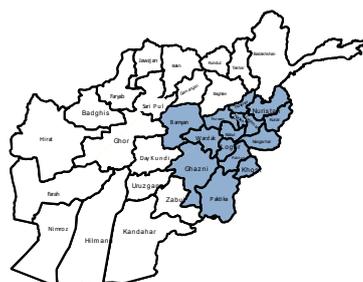
interns in Mazar-e-Sharif as part of the internship program. The team also conducted a site visit to Mazar-e-Sharif to assess program strengths and areas for improvement and to resolve any issues faced by interns.

### Regional Command East—Nangarhar, Paktia, Wardak

**Tax Administration:** During the month of September, Jalalabad MTO collected 16,709,929 AFN, which represents a 47% improvement over the same period in 2011. The MTO collected 72,038,554 AFN for the quarter, a 57% improvement over 41,338,174 AFN collected in 2011. To date, Jalalabad MTO has collected 134,570,662 AFN, which represents 78% of 2012 collection goal of 185,000,000 AFN.

**Provincial Budgeting:** On September 1, the Eastern region provincial budgeting team met with the USAID governance officer for Nangarhar province, Pnina Levermore, and the USAID Deputy Field Program Officer, Laiq Shah Kamawi. The purpose of the meeting was to provide the USAID representatives with an update on the status of the provincial budgeting pilots, including funding for the education provincial pilot projects, and to strengthen overall communication and coordination with the Nangarhar PRT. On September 11, the

Eastern region provincial budgeting team met with Mr. Allah Dad, Nangarhar Education Director, to determine the status of the \$500,000 in funding for the education development projects under the 1391 pilot program. The team also met with provincial education representatives in Paktia and Wardak and held calls with the Khost, Logar, Kunar, Laghman, Parwan, Kapisa, Panshir, and Nuristan education directorates to determine if the directorates had received the \$500,000 pilot funding for their projects. None of the eastern region education directorates had received the pilot funding. On September 15, the eastern region provincial budgeting team met with provincial council members, Mr. Zabiullah Ahmad Zai and Ms. Nafazgul Malikzai to brief them on the MoF provincial budgeting reform activity and to strengthen communication and coordination with the provincial council on provincial budgeting reform.



**Women in Government:** The team prepared for the launch of the Women in Government Internship program in Nangarhar province, which is scheduled for October 7 in Jalalabad. The team hired 20 female graduates who will begin internships and to hire interns to expand the program.

### Regional Command South—Kandahar

**Tax Administration:** The tax administration advisor is in the process of hiring a CCN at the Kandahar MTO to support MTO functions.

**Provincial Budgeting:** On September 11, the provincial budgeting team met with the Kandahar Education Planning and Budgeting Manager, Mr. Mohammad Shah, to determine the status of the funding for the 1391 pilot projects. The team also held calls with provincial education representatives from Uruzgan and Zabul. The education directorate had not

yet received the \$500,000 to be provided under the pilot project and had therefore stopped the procurement process until the funds were received. On September 16, the provincial budgeting met with Kandahar provincial council members to establish contact with the provincial council and to brief representatives on MoF provincial budgeting reform activities. The provincial budgeting team agreed to meet more regularly with the provincial council in the future to improve communication and coordination on provincial budgeting reform.



# Q4 Training Summary

## Q4 Training by the Numbers:

**1,197**—Person Days Trained

**386**—GIROA staff/interns trained

**206**—Program and provincial officials trained in BC-2 submission

**393**—Females trained



## EGGI Training Summary

Table: Number of Male and Female Stakeholders Trained by EGGI, July through September 2012

Month	Workstream ID	Workstream	GIROA Counterparts Trained	Training Topic	Location								Total # of Participants by			Total Training Days	Person Days Trained
					Kabul		Mazar		Herat		Jalalabad		Male	Female	Total		
					M	F	M	F	M	F	M	F					
Jul-12	W4	Provincial Budgeting	MoE/MoF	BC-2 Workshop	44	-	33	-	20	-	36	-	133	-	133	4	532
	W5	Tax Administration	ARD	Internal Tax Law	38	-	-	-	-	-	-	-	38	-	38	3	114
	W7	WIG	Interns	Job Search	-	-	-	18	-	-	-	-	-	18	18	1	18
	W7	WIG	Interns	Designing CV/Finding Job	-	-	-	18	-	-	-	-	-	18	18	1	18
	W7	WIG	Interns	English Language Training	-	-	-	18	-	-	-	-	-	18	18	1	18
	W7	WIG	Interns	Communication Skills	-	-	-	19	-	-	-	-	-	19	19	1	19
Aug-12	W3	Program Budgeting	Supreme Court	BC-2 Training	3	2	-	-	-	-	-	-	3	2	5	2	10
	W3	Program Budgeting	IDLG	BC-2 Training	29	-	-	-	-	-	-	-	29	-	29	4	116
	W3	Program Budgeting	MoWA	BC-2 Training	34	5	-	-	-	-	-	-	34	5	39	1	39
	W7	WIG	Interns	Building Self-Confidence	-	-	-	19	-	-	-	-	-	19	19	1	19
	W7	WIG	Interns	Labor Law	-	53	-	-	-	-	-	-	-	53	53	1	53
	W7	WIG	Interns	Information And Communication Technology	-	35	-	19	-	-	-	-	-	54	54	1	54
	W7	WIG	Interns	Management Skills	-	-	-	20	-	-	-	-	-	20	20	1	20
Sep-12	W7	WIG	Interns	Information And Communication Technology	-	91	-	-	-	-	-	-	-	91	91	1	91
	W7	WIG	Interns	Program Management Skills	-	-	-	18	-	-	-	-	-	18	18	1	18
	W7	WIG	Interns	Business Writing	-	-	-	19	-	-	-	-	-	19	19	1	19
	W7	WIG	Interns	English Language Training	-	-	-	20	-	-	-	-	-	20	20	1	20
	W7	WIG	Interns	Proposal Writing	-	-	-	19	-	-	-	-	-	19	19	1	19
<b>Sub-total</b>					<b>148</b>	<b>186</b>	<b>33</b>	<b>207</b>	<b>20</b>	<b>-</b>	<b>36</b>	<b>-</b>	<b>237</b>	<b>393</b>	<b>630</b>	<b>27</b>	<b>1,197</b>

# Q4 Counterpart Meetings

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## July through September 2012 Counterpart Meetings

### Counterpart Meetings

- 31** meeting with Tax Policy GIRoA counterparts and stakeholders.
- 93** meetings with Program Budget GIRoA counterparts and stakeholders.
- 58** meetings with Provincial Budget GIRoA counterparts and stakeholders.
- 09** meetings with Tax Administration GIRoA counterparts and stakeholders.
- 08** meetings with RRD GIRoA counterparts and stakeholders.
- 79** meetings with Women in Government GIRoA counterparts and stakeholders.

To view additional meetings and training details, click [here](#) to access the data on the portal.

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Kabul, Afghanistan

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*EGGI is a program led by the U.S. Agency for International Development to help Afghanistan create a favorable environment for private sector growth. EGGI is comprised of a diverse team of economists, development experts, and public financial management specialists who work alongside government officials, providing technical assistance and trainings on a daily basis.*