



USAID | **AFGHANISTAN**
FROM THE AMERICAN PEOPLE

Economic Growth & Governance Initiative

Q1 Quarterly Report October—December 2012
December 2012 Monthly Report

Prepared for:

USAID/Afghanistan
Office of Economic Growth and Infrastructure
Contract No. EEM-I-00-07-00005-00

January 15, 2013

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



USAID’s Economic Growth and Governance Initiative (EGGI) project continued to make strong progress in the first quarter of its fourth project year in budgeting, tax administration, and revenue generation. The project continued support to budgetary units as they completed budget hearings and updated the draft FY 1392 budget for submission to the Parliament. Following the Cabinet budget hearings in late October, the team assisted the budgetary units to adjust the budget submissions. The FY 1392 budget was rejected by the Wolesi Jirga on December 22, so the budget is still pending approval. The team will continue to support budgetary units to update budget submissions

Since the project’s provincial budgeting reform implementation support activities have been suspended by the Ministry of Finance (MoF), the team continued to conduct coordination activities with Provincial Reconstruction Teams (PRTs), USAID Field Program Officers, World Bank representatives, Provincial Councils, Provincial Development Committees (PDCs), and provincial line directorates to strengthen communication and coordination throughout the provinces on provincial budgeting activities.

The tax administration team delivered a three-day enforcement training to 47 provincial tax officials from Herat, Mazar, Jalalabad, and Kandahar. During the quarter, the Herat, Mazar, and Jalalabad Medium Taxpayer Offices (MTOs) surpassed their annual revenue collection targets for FY 1391, and Kandahar MTO began reporting monthly collection data.

The project team worked with the Afghanistan Revenue Department (ARD) to remediate Revenue Reconciliation Database (RRD) system issues in Kandahar, Kunduz, and Herat, three of the six priority provinces. In these provinces, the RRD team officially handed over the RRD application to the government. The project also continued to support the ARD Non-Tax Revenue Directorate and the Non-Tax Revenue Reforms Implementation Working Group in identifying and implementing non-tax revenue reforms. The project supported a workshop for state-owned enterprises that focused on reformed processes for reporting and collecting non-tax revenues.

The Women in Government Internship Program expanded to Nangarhar province and hired 130 women for six-month internships in Kabul, Herat, and Nangarhar. The project continued to conduct capacity building trainings and support interns to find full-time employment, and the job placement rate for graduated interns reached 84% during the quarter.

QI Recap	2
QI Objectives in Line with Results	3
Progress Toward Meeting Objectives	4
Workplan Challenges	15
Other Workplan Activities	16
Activities by Regional Command	17
QI Training Summary	19
QI Counterpart Meetings	20

QI Recap: Notable Areas of Progress

- 1) Program Budgeting:** Supported 38 budgetary units to submit and revise the draft FY 1392 budget.
- 2) Provincial Budgeting:** Conducted provincial budgeting coordination meetings with PRTs, USAID field program officers, World Bank representatives, Provincial Councils, PDCs, and provincial line directorates.
- 3) Tax Administration:** Delivered enforcement training to 47 provincial tax officials, and supported the MTOs in Herat, Mazar, Kandahar, and Jalalabad to meet their annual collection targets.
- 4) Women in Government:** Achieved an 84% full-time job placement rate for graduated interns, expanded the Women in Government Internship Program to Nangarhar province, and hired 130 additional female interns.
- 5) Revenue and Tax Policy:** Supported workshop for state-owned enterprises to introduce new non-tax revenue collection and reporting processes.
- 6) Revenue Reconciliation Database:** Supported the ARD to remediate RRD issues in Kandahar, Kunduz, and Herat provinces and trained ARD officials on database use.

Q1 Objectives in Line with Results



Project programming is consistent with USAID/USG strategic objectives in Afghanistan, which seek to advance transition to a more stable and productive state through the promotion of effective economic policy and decision making. Project advisors worked directly with GIRoA counterparts to achieve the following results in Q1 of project Year 4. In the table below, quarterly objectives and results are broken down by associated workstream.

Workstream	Quarterly Objective	Quarterly Results
Revenue and Tax Policy	Conduct a state-owned enterprise workshop to facilitate the collection of non-tax revenues in government revenue generating entities. Review International Monetary Fund (IMF) benchmarks and report on progress.	Supported the Non-Tax Revenue Directorate to facilitate a workshop for state-owned enterprises on non-tax revenue collection and reporting processes. Delivered a three-day project management training to the Non-Tax Revenue Directorate officials. Reviewed IMF benchmarks and identified key benchmarks to help ARD track, including VAT implementation.
Program Budgeting	Support budgetary units to improve capacity in budget formulation, budget execution, and performance reporting. Support budgetary units in reaching development budget execution above 50% and one billion dollar mark.	Continued to build line ministry capacity. Overall budget process and quality of the budget for FY 1392 has improved compared with previous years. According to early results, the overall budget execution increased to at least 50% and \$1,069 million.
Provincial Budgeting	Support provincial line directorates in prioritizing their needs and conduct coordination meetings with provincial counterparts and donor projects.	Conducted coordination activities with PRTs, USAID field program officers, World Bank representatives, Provincial Councils, Provincial Development Committees, and provincial line directorates.
Tax Administration	Deliver enforcement training to provincial enforcement officers, MTO Directors, Audit Managers, and Case Managers.	Delivered enforcement training to 47 provincial tax officials and continued to support the MTOs in Herat, Mazar, Jalalabad, and Kandahar. Herat, Jalalabad, and Mazar MTOs surpassed annual collection targets for FY 1391.
Revenue Reconciliation Database	Support the ARD to remediate RRD issues in the six priority provinces of Kandahar, Kunduz, Herat, Mazar, Nimroz, and Jalalabad.	Worked with ARD staff to remediate RRD issues in Kandahar, Kunduz, and Herat. Trained government officials to use, install, and address issues with RRD.
Women in Government	Expand the Women in Government Internship Program and hire, graduate, and support interns to find full-time employment to meet the targets for the Year 4 of the project.	Expanded the Women in Government Internship Program to Nangarhar province and hired 130 interns in Kabul, Nangarhar, and Herat. To date, the program has achieved an 84% full-time job placement rate for program graduates.

Progress Towards Meeting Objectives

Program Budgeting

The program budget team supported 38 budgetary units to submit and update the draft FY 1392 budget that was submitted to the Parliament during the quarter. The budget hearing process was completed in early October 2012, and the draft budget was processed by the Budget Committee and approved by the Cabinet in late October. Based on the changes made by the Cabinet, the project's embedded advisors helped the budgetary units revise the draft budget and realign the output targets. An improved draft budget format helps Parliament and civil society better understand budget details, including provincial and sectoral budget allocations. The proposed draft FY 1392 budget includes a \$3,773 million operating budget and a \$3,270 million development budget. The operating budget increased about 29% and the development budget increased about 32% compared to FY 1391.

The embedded advisors also met with budgetary unit senior managers to discuss implementation of the risk assessment report recommendations. In response to these recommendations, the team began providing additional training to budgetary units in areas identified as weak by the risk assessment.

The initial data for the FY 1391 development budget execution is encouraging. As of December 29, the budget execution rate reported by the MoF is 50%. For the second consecutive year, development budget execution in dollars exceeded one billion dollars despite the shortened fiscal year. This indicates that ministries have improved their capacity to implement the development budget primarily as a result of measures taken by MoF and line ministries, including the introduction of Procurement and Financial Planning (PFP) and the technical assistance provided by the project and other donor projects.

The Program Budget Team Supports Budgetary Units to Finalize the Draft FY 1392 Budget for Submission to Parliament: Following the Cabinet's approval in late October, the team supported 38 budgetary units to revise the draft FY 1392 budget for submission to Parliament. The budgetary units revised the draft budget narrative part of their Budget Circular 2 (BC-2) submissions. The team supported the budgetary units to realign the output targets to the budget approved by the Cabinet, as most experienced budget cuts in the version approved by the Cabinet.

The other key aspect of the revision was the provincial distribution of the operating and development budgets. Provincial distribution was adjusted according to the changes in the budget ceilings. Other areas that were supported by the team include details on the carry forward budget from FY 1391, improving nar-

ratives for sector indicators, and adjusting outputs. These details help provide a more comprehensive and detailed draft budget for discussion in Parliament.

The Cabinet approved a total budget of \$7,042.9 million, of which \$3,773.2 million is operating budget and \$3,269.7 million is development budget. At \$2,063 million, the domestic revenues cover about 55% of the total operating budget, lower than the historical average of about 60%. In the Afghan context, this indicator is used for measuring fiscal sustainability. This difference is a result of the stagnation in domestic revenues and the increase in the operating budget, but the indicator is expected to improve in the medium term as a result of increased mining sector revenues.

The total operating budget for the three top spending ministries, Ministry of Defense (MoD), Ministry of Interior (MoI), and Ministry of Education (MoE), was about 65% of the total operating budget for FY 1392. This spending is primarily due to the recent hiring of new army personnel, police, and school teachers. The development budget has increased significantly from the previous year primarily due to the \$413 million budget for the MoD's equipment and construction related expenditures. Development budgets for the Ministry of Energy and Water (MEW), MoE, Ministry of Higher Education (MoHE), Ministry of Public Health (MoPH), Ministry of Public Works (MoPW), and Ministry of Agriculture Irrigation and Livestock (MAIL) have also increased. This increase reflects the commitment from donors for higher on-budget assistance.

Specific areas supported by the team include:

- Incorporating changes to major economic codes (Wages and Salaries- code 21, Goods & Services-code 22, and Acquisition of Fixed Assets-code 25).
- Revising the program outcome and output section of the budget narratives based on adjustments made to the budget figures.
- Revising the provincial distribution of the budget.
- Revising the tashkeel (staffing) of the budgetary units.
- Revising development budget estimates.

The Wolesi Jirga, or the Lower House of Parliament, rejected the draft FY 1392 budget with an overwhelming majority of votes. The primary reasons for the rejection included:

- Unequal budget allocation, where \$86 million was allocated for the Presidential



The program budget team discusses the risk assessment report recommendations with budgetary units.

Palace compared with \$31 million for the Judiciary and \$33 million for the Parliament; and

- Unbalanced budget allocations to provinces, where the least developed provinces received lower allocations.

The Members of Parliament proposed the amendment or elimination of some of the budget guidelines and the allocation of an additional 2 million AFN for each of the 11 least developed provinces. The Members of Parliament also proposed the move of the Directorate of Water from the MEW to the Ministry of Urban Development Affairs (MoUDA), which the MoF opposes. The program budget team will continue to support the budgetary units to accommodate the necessary changes to the budget.

The Program Budget Team Supports the Budgetary Units in Implementing the Risk Assessment Report Recommendations: In the risk assessment completed earlier this year, the team identified several weak areas where budgetary units required additional support and provided recommendations with clear actions to address these areas. The team also developed a matrix to monitor the progress of the budgetary units in these areas. Some of the weak areas identified include performance indicators such as outputs and outcomes, PFP, and Performance Monitoring Reporting (PMR).

In December, the team met with several budgetary unit senior managers, including Deputy Ministers and Director Generals, to discuss the risk assessment recommendations and action plans. The team provided support in implementing the recommendations from the risk assessment reports in and provided coaching to the supported budgetary units to improve capacity in these areas. The team plans to continue this support and will update the matrix and brief USAID on the status of the improvement in these areas.

The team offered training and on-the-job coaching on National Priority Programs (NPPs), sector strategies, and budget alignment

Continued on page 5...

Progress Towards Meeting Objectives

Program Budgeting

Continued from page 4...

with indicators. During November 25 - December 9 the program budget team conducted a four-day program budget training for 35 participants from the Ministry of Women's Affairs (MoWA) and the Academy of Sciences of Afghanistan. The training was part of a ten-day training funded by UNDP, and training participants included the MoWA Deputy Minister of Administration and Finance and Budget Implementation Team (BIT) members.

During December 2-5, the program budget team conducted a four-day workshop for all 34 provincial directors and managers from Governors' offices in partnership with the Performance Based Governance Fund (PBGF). The purpose of the workshop was to train Governors' office officials on the PBGF program and the annual budget process. The PBGF program is funded by USAID and implemented by the Asia Foundation and provides financial assistance to Governors in order to enhance their ability to meet operational and community outreach needs, enhance their relationship with citizens, and improve their overall management capacity. The program budget team explained the budget formulation process and helped attendees better understand opportunities for provincial officials to provide inputs to the national budget. The team presented three modules on program budgeting reform, costing, and budget circulars. This training helped strengthen the budget formulation capacity in Governors' offices. Similar training is expected to be conducted in about six months, and the program budget team plans to address NPPs.

During December 8-10, the MoF, in close coordination with the project's program budget team, conducted a three-day training program for all budgetary units. The program budget team worked with counterparts to select required BIT staff for training, and the program budget embedded teams attended the training along with the counterparts. About 200 participants, including program budget advisors, attended the training. Based on the previous two years of experience, the PFP forms have been improved and have become more user-friendly, but no major changes have been made.

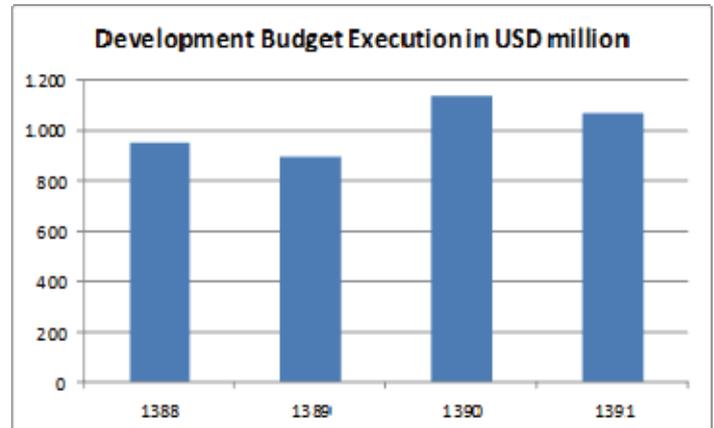
Following the training program, many budgetary units met to outline plans for completing the PFP exercise for FY 1392. The program budget team members also participated in the meetings, and the team began assisting budgetary units in completing their draft PFPs for the FY 1392 budget. If any changes are made during the Parliamentary approval process, PFPs

will be revised accordingly. For most budgetary units, no changes are expected. This will be the third year of PFP support to budgetary units by the program budget team. With this support, most budgetary units will be in a much better position to complete their PFP process and improve their budget execution rates for the development budget.

The program budget team continued to support the line ministries and budgetary units in enhancing the capacity of civil servants to prepare quality PFPs for FY 1392. The team also provided on-the-job training to their counterparts in the ministries and budgetary units and will assist them to submit draft PFPs to MoF by end of the month.

Development Budget Execution for FY 1391 Exceeds One Billion Dollar Mark

Despite Shortened Fiscal Year: Initial figures show that the development budget execution exceeded the one billion dollar mark for the second consecutive year despite shortened fiscal year. On a per capita monthly basis, this is the highest development budget execution per month since 2001. This amount is equivalent to a 50% budget execution rate for the entire year; however, about 73% of the development budget execution is concentrated in two sectors: infrastructure and agriculture/rural development. Education, and governance/rule of law continue to underperform in budget execution compared to other sec-



tors.

Key reasons for the high budget execution rate include improved budget formulation, implementation of procurement and financial planning, the proactive role played by the MoF, and Parliament oversight of high spending budgetary units.

Key budgetary units have improved their overall capacity over the past several years, including a bigger focus on development budget execution for the development budget. The budgetary units also continue to prepare better projects with better costing methods. The project has played a significant role in improving budgetary units' capacity in budget formulation through both formal and on-the-job training programs.

As more than 85% of the development budget is allocated to 14 line ministries, active support to the high-spending ministries as part of the MoF strategy is expected to further increase budget execution. As agreed with MoF, the project plans to focus on about 20 key line ministries during Year 4 to further improve their capacity to implement their budgets.

Progress Towards Meeting Objectives

Provincial Budgeting

The project's support for MoF provincial budgeting reform implementation has been put on hold by the MoF until further notice. During the quarter, the provincial budgeting team continued conducting coordination meetings with key stakeholders, including PRTs, USAID Field Program Officers, World Bank, the Education Quality Improvement Program (EQUIP), Provincial councils, and provincial line directorates on MoF provincial budgeting reform initiatives and on the status of the \$20 million WB grant commitment for MoE provincial directorates' pilot projects implementation through EQUIP in FY 1392. In addition, the team attended the monthly PDC meetings to understand that what priorities are considered for approving of the development projects in the monthly PDC meetings.

Key accomplishments for the provincial budgeting work stream during the first quarter include:

- Conducting coordination meetings with provincial council directors and representatives in Herat, Wardak, Kapisa, Nangarhar, Laghman, Balkh, Samangan and Parwan provinces to understand priorities and establish working relationships.
- Conducting periodic coordination meetings with PRTs and USAID field program officers, to strengthen communication and coordination, and update them on provincial budgeting reform recent efforts.
- Attending monthly provincial development committee's meetings to understand that what priorities are considered for approving of the development projects in the monthly provincial development committees' meetings.



The Herat provincial budgeting team meets with the Herat Provincial Council Director, Dr. Ab Zaher Faizada, and Provincial Council member, Mr. Qattali, on November 10.

Provincial Budgeting Team Coordination Activities with Provincial Councils:

Since provincial budgeting support to the MoF has been suspended by the MoF, the provincial budgeting team conducted coordination meetings with Provincial Councils. During the first quarter the provincial budgeting team met with Balkh, Herat, Nangarhar, Wardak, Laghman, Kapisa, Samangan, and Parwan Provincial Council Directors and other members to discuss the following issues:

- Role of the Provincial Councils in overseeing and monitoring development projects at the provincial level;
- Provincial Council travel to the districts to collect complaints and needs; and
- Provincial Council inputs to line ministries through provincial directorates for the national budget.

Most Provincial Councils have play an advisory and monitoring role in the provinces, and their members travel regularly to the districts every to observe and collect resident complaints and needs. The Provincial Council Directors noted that they have suggested some development projects to provincial line directorates and that these were approved by PDCs and sent to the related ministries for the FY 1392 national budget, but most have not received any feedback on whether these projects are included in the FY 1392 national budget. The purpose of the meetings was to build relationships with Provincial Council Directors and representatives and understand how provincial needs and projects are provided for consideration in the national budget.

The Provincial Budgeting Team Briefs Laghman Education Director on Pilot Projects Implementation:

On December 9, the project's east region provincial budgeting team met with Laghman education director, Mr. Asadullah Roya, to brief him on the status of the World Bank \$20 million additional funding commitment for the MoE pilot projects implementation and Capacity Building Training (CBT) workshops for Provincial Education Directorates (PED) in 2013. Mr. Roya was briefed that the MoE has received \$20 million of additional grant funding from the World Bank through EQUIP. \$17 million of the total funding will be spent on MoE pilot projects implementation, and the remaining \$3 million will be used to fund conduction of CBT workshops for PEDs to help the provincial staff implement the pilot projects properly. Mr. Roya appreciated the briefing and noted that during the pilot phase the Laghman education directorate requested five priority projects for the FY 1391 national budget to construct school buildings. The province ex-



The east region provincial budgeting team meets with the Laghman Provincial Education Director on December 9.

Continued on page 7...

Progress Towards Meeting Objectives

Provincial Budgeting

Continued from page 6...

pected to receive the allocated funds (\$500,000) in FY 1391 to implement the projects but realizes it is also a good opportunity for the directorate to implement the pilot projects through the EQUIP funding in 2013.

Coordination Meetings with the USAID East Region Field Program Officer and West Region Economic Growth Officer:

The project's East and West Regions provincial budgeting teams have worked to establish and maintain working relationships with the key USAID regional representatives that involved in the East and West regions activities. As Part of the effort, during the month of October, the project briefed the East and West regions USAID representatives on the provincial budgeting reform activities and the project's provincial budgeting team support to the MoF that being done since September 2010, and also in the meetings they discussed civil society involvement and participation in the provincial budgeting activities, especially, during conducting capacity building workshops for the provincial directorates' officials.

Coordination Meeting with World Bank and EQUIP Representatives on the World Bank \$20 Million Commitment to the MoE Pilot Projects Implementation:

During this quarter the provincial budgeting team met with representatives from the World Bank, EQUIP, MoE, MoF, and GIZ to discuss the MoE provincial pilot projects implementation and plan for CBTs for PEDs on planning, procurement, budget, finance, and human resources.

The meeting participants discussed the \$20 million in World Bank funding for the MoE provincial pilot projects implementation in FY 1392. This funding is part of the additional funding to the MoE EQUIP Program, where \$17 has been allocated to the projects prioritized, designed, and requested by the PEDs and the remaining \$3 million has been allocated to

be spent on capacity building program for MoE provincial staff. Based on previous World Bank experience working with provinces, project procurements will be carried out at the central level, contracts will be awarded in Kabul, and PEDs will be involved in each step of the execution process. The MoE procurement department has prepared a draft procurement plan for implementing 134 development projects in 33 provinces.

The participants agreed to meet again in December and agreed that the World Bank, EQUIP, and MoE would organize a workshop on December 8, but neither the meeting nor the workshop have yet occurred.

Provincial Budgeting Team Provincial Development Committee Meeting Attendance:

During the quarter the project's provincial budgeting officers attended at monthly PDC meetings in Herat, Kandahar, and Nangarhar provinces to better understand provincial development priorities and progress.

The Herat PDC meeting focused on the implementation of development projects in Herat province. The Governor requested line directorates and donor agencies to provide detailed information on development project implementation progress to increase transparency and provide accurate information for district-level government representatives.

In the Kandahar PDC meeting, the Governor stressed that representatives from every implementing partner and donor should be present at each PDC meeting to provide updates



The central region provincial budgeting officer meets with the Parwan Provincial Council Director on December 2.

on project implementation progress and noted the absence of many national and international donors and implementers who did not attend the meeting. In the meeting the Kandahar High Peace Council representative asked that the national and international organizations and line directorates provide priority job placement for those individuals who have newly returned from insurgency and joined the government of Afghanistan.

In the Nangarhar PDC meeting the Governor thanked the security forces for their pivotal role in the stabilization and security of region, and noted that their efforts enable development progress in the province. Also the Mustofi, Mr. Mohammad Alam Ishaqzai, praised the Nangarhar provincial directorates' timely FY 1391 development discretionary budget execution, which is more than 95%.

Progress Towards Meeting Objectives

Tax Administration

During the quarter, the tax administration team delivered a three-day enforcement training to 47 tax officials from Herat, Mazar, Jalalabad, and Kandahar. The team also held several meetings in December with Adam Smith International (ASI) representatives in response to the instructions from ARD Deputy Minister of Finance to work with ASI to avoid redundancies in training provided to ARD. The team's training was aligned with that of ASI to the extent that Kabul Large Taxpayer Office (LTO) and MTO accounting and audit trainings will follow a similar format to those provided by ASI, and may be taught by instructors from the project or ASI. The trainings for provincial employees will remain taught in blocks and will not adhere to ASI's format.

Additionally, the team interviewed the candidates for two positions in Kandahar and Mazar. One candidate for each province has been selected, and it is anticipated that both candidates will report for duty in late January 2013.

Provincial Enforcement Training Delivered: During November 18-21, the tax administration advisor delivered a three-day enforcement training for tax officials from Herat, Mazar, Jalalabad, and Kandahar. Forty-seven tax officials, including enforcement officers, related managers, and tax officers, attended the training. On November 21, the Director General of Revenue, Dr. Zamanzai, visited the training class. The Director General expressed his thanks for the training and stated that since the project began conducting trainings the capacity of staff has improved, which is visible in the increase in revenue production. The tax administration analysts from Herat and Mazar also participated and assisted in the delivery of the training. The team will deliver additional training classes for LTO and MTO personnel in the coming months, and an enforcement training for Kabul tax officials is planned for January 2013.

Herat MTO Completes an Outstanding Year: In December, the Herat MTO collected a total of 48,396,810 AFN, which represents a 73% increase over the previous months when collections were 27,906,621 AFN. During the quarter, Herat MTO collected 97,840,675 AFN, which represents a 142% increase compared to the same quarter in 2011 when collections were 40,509,152 AFN. To date, Herat MTO has surpassed its adjusted annual collec-



The tax administration team delivered a three-day enforcement training to 47 provincial tax officials during November 18-21.

tion target. Herat MTO collected 330,925,034 AFN, which is a 79% improvement over tax year 1390 when collections were 186,421,288 AFN.

Additionally, the Herat MTO taxpayers filed 231 tax returns. These filings take Herat MTO tax return filing to a total of 6,719 tax returns, which is 91% better than in tax year 1390. Throughout tax year 1390, starting with tax return filing readiness, the tax administration team has emphasized to MTO Directors the importance of providing continued taxpayer education and outreach programs. The Herat MTO Director followed the team's instructions almost to the letter, and his MTO has reaped the benefits through outstanding revenue generation.

Jalalabad MTO Shows Significant Improvement: In December, the Jalalabad MTO collected 30,005,277 AFN, a 39% increase over the previous months. During the quarter, Jalalabad MTO collected 92,612,104 AFN compared to 78,948,120 AFN collected for the same quarter in 2011, which represents 17% year on year increase.

In November 2012, Jalalabad MTO surpassed its annual collection target and collected 227,182,766 AFN, a 66% increase over its annual collections of 136,643,712 AFN. Jala-

labad MTO is in the infancy stage of installing a Taxpayer Service Center and has not begun to report tax return filings. The tax administration team has been assisting with the installation of the Taxpayer Service Center and anticipates that the tax return reporting will begin with the new filing season on January 1, 2013. The team will continue to monitor and report on the center's progress as appropriate.

Kandahar MTO Begins Reporting: The Kandahar MTO began reporting monthly data in November 2012; however, the tax administration team is unsure as to the accuracy of the data provided. The team cannot substantiate that the comparisons are accurate at this time. Additionally, only the quarterly figures were provided for the last two quarters with no monthly or annual data.

During October to December 2012, the Kandahar MTO collected 31,891,449 AFN compared to 4,267,510 AFN reportedly collected during June to September 2012. These figures represent a 647% from the last quarter. The team cautions that the data is probably inaccurate and cannot be verified at this time. The project is working to place a local staff in Kandahar as soon as possible to address and eliminate the deficiency in reporting.

Continued on page 9...

Progress Towards Meeting Objectives

Provincial Tax Administration

Continued from page 8...

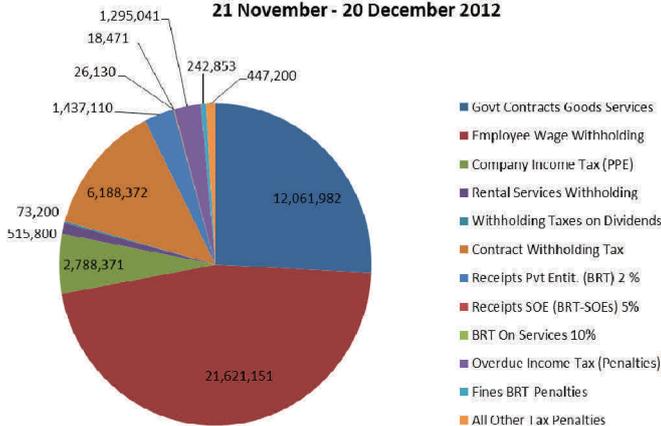
Mazar MTO Closes Out a Year of Stellar Performance: In December 2012, Mazar MTO collected 46,715,681 AFN, which represents a 46% improvement over November 2012 when collections were 31,938,468 AFN. During the quarter, Mazar MTO collected 113,541,129 AFN, which was a 26% improvement over the prior quarter and 36% improvement over the same period in 2011 when collections were 83,463,575 AFN. As previously

reported, Mazar MTO surpassed its annual collection goal in November 2012. To date, Mazar MTO collected 301,472,123 AFN representing a 60% improvement over collections in tax year 1390 when the amount collected was 188,191,757 AFN.

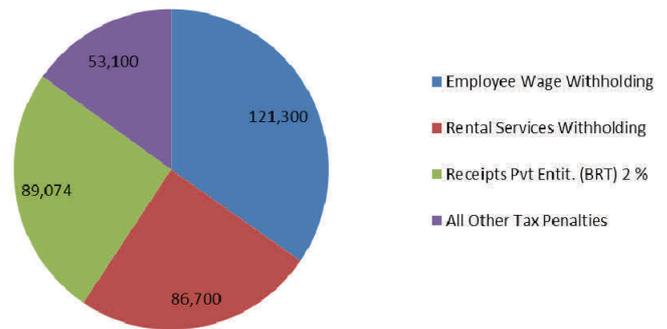
Additionally, Mazar MTO taxpayers filed 338 tax returns in December 2012. The team is unable to provide comparison data for Mazar's

filed tax returns, as the reporting of such data has been sporadic. The team has been working with Mazar MTO to improve reporting, but is experiencing a challenge in this endeavor. A local resource will be assigned to the Mazar MTO in late January or early February 2013 to anticipate such posting for an improvement in Mazar MTO's data reporting activities.

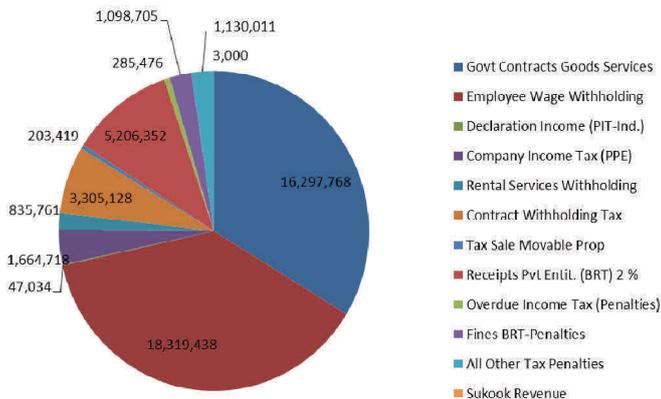
**Mazar MTO Revenue Collected During
21 November - 20 December 2012**



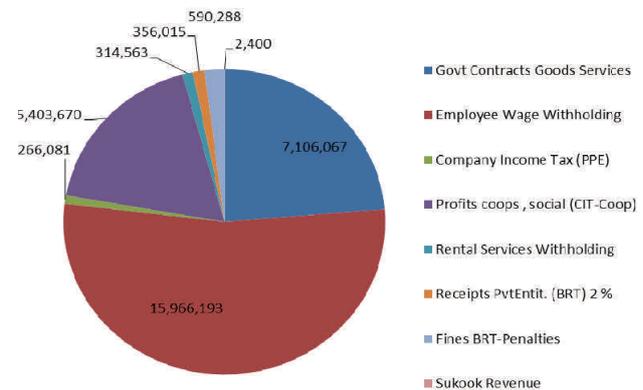
**Kandahar MTO Revenue Collected During
21 November - 20 December 2012**



**Herat MTO Revenue Collected During
21 November - 20 December 2012**



**Jalalabad MTO Revenue Collected During
21 November - 20 December 2012**



Progress Towards Meeting Objectives

Women in Government

During the quarter, the Women in Government team continued to expand the internship program and officially launched in Nangarhar province. Throughout the month 90 women began internships in Kabul, 20 women began internships in Herat, and 20 women began internships in Nangarhar. The team conducted orientation sessions for the 130 new interns in Kabul, Herat, and Nangarhar to explain the expectations of the internship program.

The team also continued to support program graduates in finding full-time employment. During the quarter, the full-time employment rate reached 84%. The team continued to deliver regular capacity building trainings to the interns in Kabul, Mazar, Herat, and Nangarhar to help them build skills necessary for successful full-time employment. In Kabul, the interns continued their volunteer activities, delivering presentations on nutrition and hygiene to students at Mehrabuddin High School.

During the quarter, the internship program underwent some changes in response to new Independent Administrative Reform and Civil Service Commission (IARCSC) requirements. The program established a dedicated training team and began hiring additional supervisors so that the ratio of interns to supervisors is ten to one. Training was also expanded to two days a week, and the training curriculum will include IARCSC entrance exam preparation. The team also began laying the groundwork for an intern association and began initial discussions with international media to highlight program successes.

Women in Government Internship Program In Kabul: On October 11, the Women in Government team organized a roundtable discussion with interns in Kabul and the USAID Gender Team to discuss key women's issues in Afghanistan. The discussion covered challenges faced by young female professionals



Nangarhar officials sign a letter of agreement with the Women in Government Internship Program.



The Women in Government Herat Provincial Coordinator introduces the internship program at the monthly Herat Provincial Development Committee meeting.

in the workplace and the role of women in the business world. The discussion also covered the limited number of educated women in Afghanistan to work in key positions in the ministries and other sectors, poverty, and the low capacity of employees, and interns shared their personal stories, reflections on their educational achievements, and experience with the internship program. The discussion not only illuminated factors contributing to the low number of females in key GIROA positions but also highlighted solutions to increase the number of women in government who can contribute to the development process, including promoting exchange of ideas, academic opportunities for women, and networking among professional women

The Women in Government communications and coordination officer met with representatives from the BBC, the New York Times, and NATO press to discuss the Women in Government Internship Program. NATO press expressed interest in developing a 45 minute documentary on the Women in Government Internship Program, which would take four to six months to complete. BBC plans to write an article for their international magazine about the internship program and will send a proposed draft to USAID for approval.

During the quarter, the interns organized and delivered presentations on hygiene and cleaning up the environment to a group of female students at Mehrabuddin High School in Kabul. These presentations

are the latest in a series of volunteer activities through the Women in Government Internship Program, with a different group of interns participating each time. Volunteer work is an aspect of the Women in Government Internship Program that helps interns understand how to actively participate in society. These activities provide interns with an opportunity to interact with different groups of people, understand issues that are important to their communities, build confidence, and practice their presentation skills. For this and previous volunteer work, the interns have done the majority of the preparatory work and deliver the presentations on their own.

Women in Government Internship Program In Nangarhar: In October, the Women in Government Internship program officially launched in Nangarhar province. The Nangarhar Deputy Governor, Director of the IARCSC, Director of Department of Women's Affairs, and USAID representatives attended the ceremony. Government officials stated that the Women in Government Internship program provides tremendous opportunities for new female graduates to develop their career and provide them with experience that can increase the number of female employees in the Afghan government. At the end of ceremony, a letter of agreement was signed with each organization that outlines the expectations of all parties during the internship. The team selected 20 graduated female interns for six-month internships. The 20 intern officially began their internships on November 4:

- Nangarhar High Court - 5
- MoHE - 3
- MoE - 4
- MoPH - 3
- Ministry of Rural Rehabilitation and Development - 2

Continued on page 11...

Progress Towards Meeting Objectives

Women in Government

Continued from page 10...

- Department of Women's Affairs - 2
- Peace Home - 1

As part of the internship program, the team conducted an orientation session for the newly hired interns to outline the general information on the program's role and responsibilities of interns during their internship period.

Women in Government Internship Program in Herat: In October, 20 women began internships at government ministries and organizations in Herat:

- Herat Governor's Office - 4
- Department of Women's Affairs - 4
- MAIL - 2
- Herat University - 10

The interns in Herat attended a USAID coordination meeting that was organized to understand the interns' views, ideas, and suggestions on how to improve internship programs across Afghanistan. The USAID Deputy Mission Director led the meeting, and interns from the project as well as programs with National Democratic Institute and USAID's RAMP-UP project also attended. The interns shared their experiences with the program, discussed the impact of the program on their careers, and provided suggestions to improve and increase participation in internship programs and public affairs.

In early November, the project's regional internship coordinator delivered a presentation on the Women in Government Internship Program at the Herat PDC meeting. The presentation provided an overview of the program to attendees, including the Herat Governor, Provincial Council Director, provincial line department directors, and national and international organization representatives. The Herat Governor suggested that the provincial line directorates take advantage of the opportunity the internship program provides to help the government achieve the Afghanistan National Development Strategy goal of having

As part of their volunteer activities, Women in Government interns in Kabul deliver a presentation to the students of Mehrabuddin High School on nutrition and hygiene.



30% female employees in the Afghan government. Additionally, the Governor expressed his interest in hosting a talk to share his experiences with interns and suggested other participants to do the same. Dr. Ab. Zahir Faiz Zada, Chairman of the Herat Provincial Council, appreciated the program and its goals and praised the program as a means to access qualified staff.

Following the meeting, the Herat internship coordinator received offers from several government organizations to place interns in their organizations, including the Directorate of Culture and Information (DoCI) and the Environmental Protection Department (EPD). The coordinator discussed these opportunities for expansion of the internship program in Herat with the IARCSC.

Women in Government Internship Program in Mazar: On December 20, the Women in Government team held a graduation ceremony for 17 interns who completed the six-month internship program in Mazar. A number of government officials and representatives from the Directorate of Women's Affairs, the Mustofiat, Balkh University, the Governor's office, and USAID attended the ceremony.

The Women in Government Internship Program acting team lead gave an opening speech that addressed the program benefits and achievements. The Acting Director of Women's Affairs, Mohammad Nasir Amir, spoke about the value and importance of internships and noted the impact of the internship program in Mazar. A USAID representative, Ms. Kendra L. Bruce, spoke about the importance of the Women in Government

Women in Government Interns in Kabul, Herat, Mazar, and Jalalabad Continue to Receive Capacity Building Training:

The Women in Government team continued to conduct capacity building training workshops for interns in Kabul, Herat, Mazar, and Jalalabad. The purpose of these trainings is to help interns develop skills that are relevant to their internships and eventual full-time employment. The specific trainings are based on the needs and requests of interns at each location. Trainings delivered during the month covered:

- Gender Workshop
- General Management
- Self-Confidence
- Banking
- Presentation Skills
- Leadership Skills
- MS Access Database
- Report Writing
- Effective Communication
- Curriculum Vitae Development
- Budgeting and Taxation
- Information Technology
- Basic English Language



17 interns in Mazar-e-Sharif graduate from the Women in Government Internship Program on December 20.

Internship Program and encouraged the interns to take part in the government. Finally, Fahima Farhat, a Woman in Government intern, thanked USAID, the project team, and counterpart organizations for providing the interns with this opportunity.

Progress Towards Meeting Objectives

Revenue and Tax Policy / Non-Tax Revenue

ARD Non-Tax Revenue Directorate Conducts a Non-Tax Revenue Reporting Reforms Workshop for State-Owned Enterprises:

On October 7, the project advisor supported the ARD Non-Tax Revenue Directorate to hold a one-day workshop for state-owned enterprises from Kabul and the provinces. The workshop focused on the implementation of the recent financial reporting reforms proposed by the Non-Tax Revenue Reforms Implementation Working Group. 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. USAID funded the workshop, and representatives from the ARD Non-Tax Revenue Directorate and the MoF Administration and Finance, Tax, and Treasury Departments delivered presentations with technical support from the project.

The Deputy Minister of Revenue and Customs, Said Mobin Shah, opened the workshop, providing an overview of the economic importance of state-owned enterprises, the role of financial stability in Afghanistan's economic growth, and the importance of revenue collection. Director General of ARD, Dr. Zamanzai, and the Director General of State-Owned Enterprises, Mr. Ansari, also spoke at the event. This workshop communicated the proposed reforms that will assist the state-owned enterprises with non-tax revenue collection and will help state-owned enterprises differentiate the collection of tax and non-tax revenues.

To follow up on the implementation of the proposed reforms presented and discussed during the workshop, during the month of October the Non-Tax Revenue Directorate, with the technical support from the project advisor, officially provided new forms and bank account numbers along with specific instructions for non-tax revenue collection and related financial reporting to state-owned enterprises in Kabul and the provinces. This will help MoF-Afghanistan Financial Management Information System (AFMIS) Department to capture non-tax revenues collected from state-owned enterprises.

Thirteen Non-Tax Revenue Directorate Officials Attend Project Management Training:

During October 22-24, the project advisor conducted project management training for 13 ARD Non-Tax Revenue Directorate officers and managers, including the Non-Tax Revenue Director. The training was designed

to build the capacity of Non-Tax Revenue Directorate officials to better support non-tax revenue reforms implementation efforts. The Non-Tax Revenue Directorate is responsible for facilitating and overseeing the collection of non-tax revenue and is planning reforms projects at the Ministry of Transport, Ministry of Mines, and other government entities in the coming months.

The Non-Tax Revenue Director, Amina Ahmady, asked the project to assist Non-Tax Revenue Directorate staff in building their project management skills. The training will enable staff to better identify, initiate, organize, and implement revenue reforms projects and assist the Directorate in achieving revenue collection reforms objectives and targets. The project supported the training by developing the training material and coordinating training logistics. Completion certificates were issued to participants by Director General Zamanzai and Director Amina Ahmady on November 4, 2012. Dr. Zamanzai stated that the revenue is the backbone of the government's economic growth and that these capacity building and development programs help with collecting and monitoring revenue effectively and efficiently. He appreciated the project's efforts and called for further training and capacity building training for Non-Tax Revenue Directorate staff.

Letter of Agreement Signed Between the Deputy Minister of Revenue and Customs, Traffic Director, and the Non-Tax Revenue Director on Action Items for Traffic Non-Tax Revenue Reforms Implementation:

To build support for non-tax revenue reform activities at the MoF Traffic Directorate, the Deputy Minister of Revenue and Customs organized a meeting between the new Traffic Director, Brigadier General Nezamuddin Dadkhaw; Non-Tax Revenue Director, Amina Ahmady; and the Non-Tax Revenue Reforms Implementation Working Group. On October 9, the working group met and agreed on a set of action items to support efforts at the Traffic Directorate.

On November 3, the project advisor facilitated the signing of this Letter of Agreement (LoA) between the Deputy Minister of Revenue and Customs, Sayed Mobin Shah; the Traffic Director General, Nezamuddin Dadkhaw; and the Non-Tax Revenue Director, Amina Ahmady; to obtain the commitment of senior officials to Working Group activities at the MoF Traffic Directorate. This document will allow the Working Group to conduct further

assessments of traffic non-tax revenue streams and shows support for reforms implementation efforts at the Traffic Directorate. The key items outlined in the agreement include:

- The Traffic Directorate and the ARD Non-Tax Revenue Directorate agreed to move the Kabul Customs ASYCUDA computer system to the Traffic Directorate with the provision that ASYCUDA related operations will be run by customs officers;
- The Traffic Directorate will have a representative participate in the Working Group to facilitate traffic revenue reforms implementation efforts;
- Traffic revenue reforms will begin with the implementation of small-scale reforms; and
- The Traffic Directorate will provide office space and office requirements will be managed by Non-Tax Revenue Directorate with MoF budget or donor support.

Move of Kabul Customs ASYCUDA Vehicle Documents Verification Function to MoF Traffic Directorate:

To facilitate the possible move of the ASYCUDA computer system, the Non-Tax Revenue Reforms Implementation Working Group began working closely with Kabul Customs, ASYCUDA, and the Traffic Directorate to identify the requirements, new business processes, and other details for the actual implementation of this move. This move will decrease the current processing time of 1-3 weeks to only a few hours, streamline the process eliminating three steps from the process, and decrease the opportunities for corruption.

The project advisor held multiple meetings with the Kabul Customs, ASYCUDA, MoF, Traffic Department, and Trade and Accession Facilitation for Afghanistan (TAFA) project officials to discuss the move of ASYCUDA and the required equipment and internet connection to operate this web based application at the Traffic Department. The Working Group secured office space at the Traffic Directorate for ASYCUDA operations. The current internet bandwidth at the MoF Traffic Directorate is not sufficient to support ASYCUDA system operations. The MoF Deputy Minister of Administration, Major General Mr. Mirza Mohammad Yarmand, agreed to provide the internet bandwidth required to establish ASYCUDA operations at the Traffic Directorate and issued an official order, but this has not yet been implemented. A follow up meeting is scheduled

Continued on page 13...

Progress Towards Meeting Objectives

Revenue and Tax Policy / Non-Tax Revenue

Continued from page 12...

with MoI and MoF senior officials to help facilitate the implementation of this order.

Comprehensive Presentation on Revenue Reform Recommendations From the Vehicle Registration Report:

The project advisor supported the traffic non-tax revenue reforms implementation working group by developing a presentation outlining revenue reform recommendations proposed in the vehicle registration report. The presentation reflects the findings and proposed recommendations from the study of traffic revenue streams conducted by the ARD Non-Tax Revenue Directorate with the technical assistance provided by the project since December 2011. Following a request from Non-Tax Revenue Director Amina Ahmady, the project advisor is working with Non-Tax Revenue Directorate staff to further improve the presentation by collecting additional data from the MoI, the Traffic Directorate, the Kabul Traffic Department, the Central Statistics Office, and the MoF AFMIS system. Additional activities include:

- Collecting statistics on registered vehicles and driver's licenses in Kabul for the past 5 years;
- Collecting data on the current traffic fee schedule;
- Collecting data on the fee schedule for vehicle registration and driver licensing of neighboring countries for comparison purposes;
- Developing a proposed fee schedule, considering the cost of resources used;
- Validating collected data on traffic staff in the Traffic Directorate and Kabul Traffic Department;
- Developing a detailed description of the proposed one-stop-shop reform;
- Gathering data on collected revenue from all traffic revenue streams for past 5 years;
- Collecting data on revenue collected from driver's license practical exam; and
- Collecting data from ARTAS about all traffic revenue streams for the past 5 years.

The data collection and analysis will be completed by mid January 2013. The data will also be used as a benchmark for the upcoming study of traffic fee restructuring planned to

start mid-January 2013.

Upcoming Study of MoI Traffic Directorate Revenue Streams Fee Structure:

The traffic non-tax revenue reforms implementation working group completed a study of the current fee structure of several revenue streams at the MoI Traffic Directorate, including vehicle registration, re-registration, and transfer of ownership. The data was collected by observing the Kabul Traffic Department Tariff Office responsible for calculating fees and issuing payment slips. Following this comprehensive study of the current fee structure at the Traffic Directorate, the project advisor plans to develop a traffic fee restructuring report that will outline the current fee structure and provide recommendations. This report will be different from the Vehicle Registration Revenue Report developed in early 2012, which primarily discussed process streamlining and system modernization. This new study and the fee restructuring report that is planned for completion in January 2013 will focus on:

- *Simplifying and standardizing current fee structure:* The fees need to be simplified, and the existing fee structure needs to be made more uniform to accurately reflect the cost of the services and products provided.
- *Facilitating fee modification:* Currently, traffic officials are working on law amendments, and the ARD Non-Tax Revenue Directorate will provide a traffic fee restructuring recommendations document to support changes to the traffic fee structure.
- *Facilitating fee increases:* For the last three decades, the traffic fees have not been adjusted and have lost a significant percent of their original revenue.
- *Reflecting the value for products and services provided:* Current resources (both human and other resources) are below their real cost.
- *Identifying and proposing payment options:* Currently, the vehicle registration and driver licensing fee payment are completed through two different procedures, providing an opportunity to recommend and implement a unified payment process.

IMF Benchmark Review: During the week, the tax policy advisor reviewed the existing information about the IMF benchmarks, including a narrative matrix from the Technical Coordination Committee that outlines the status of the structural benchmarks and identifies key actions taken. The primary organizations that will carry out actions to meet the benchmarks are the ARD and the Afghanistan Customs Department (ACD).

The advisor noted that several of the IMF benchmarks have been achieved, but he will continue to track benchmarks that are still in progress, including:

- Following the approval by the Cabinet, the ARD is to submit a draft law on Value Added Tax (VAT) to Parliament. The draft legislation will be prepared in consultation with IMF staff, limit exemptions, and require that new exemptions be introduced only through parliamentary approval in the VAT law.
- The ARD within MoF is to identify taxpayers in the MTO and the Small Taxpayer Office (STO) whose turnover exceeds the LTO threshold and reset the thresholds for the LTO and the MTO with the objective of redistributing taxpayers evenly across the three offices. The findings and actions to be summarized in a report.
- Submit to the Ministry of Justice (MoJ) amendments to the income tax law, minerals law, oil and gas (hydrocarbons) law and customs code—developed in consultation with IMP staff—related to the development of a sound and robust natural resources fiscal regime to attract investment and ensure the government has a reasonable share of the economic rent.
- Sign a memorandum of understanding between Financial Transactions and Reports Analysis Center of Afghanistan (a Financial Intelligence Unit under the Anti Money Laundering and Proceeds of Crime Law), the Financial Supervision Department of Da Afghanistan Bank, and competent law enforcement authorities on information sharing.

The implementation of VAT is a key benchmark for ARD. Key challenges for this activity include:

- Passing legislation in Parliament;

Continued on page 14...

Progress Towards Meeting Objectives

Revenue and Tax Policy / Non-Tax Revenue

Continued from page 13...

- Preparing the public for the introduction of the new tax; and
- Ensuring that the administration is ready for the organizational and systems changes required to implement VAT.

The tax policy advisor observed the progress of the VAT law in the MoJ. When the law moved to the sub-legal committee of the Council of Ministers, the advisor recommended the involvement of the Minister of Finance to help pass the law. On December 30 and January 1, the Minister of Finance, H.E. Zakhilwal, met with members of the VAT law committee. The advisor provided an update on the progress of these activities to Deputy Minister Shah and recommended that the Deputy Minister meet with the committee members and restructure the committee. The new committee is chaired by Director General Zamanzai and will focus on VAT law implementation.

The advisor plans to attend these committee meetings and monitor VAT law implementation.

Excise Tax on Motor Fuel Law Facilitation: The original highway tax law has been in effect since 1378, and the payment was collected by the MoPW and used to cover the expenses of maintaining and repairing highways and roads. Because of the large number of changes in the structures of governments, provinces, and highway control, a large amount of the revenues are missing and not collected in the government revenue accounts. This missing revenue was largely a result of a lack of a systematic structure to collect and control this tax.

The MoF and ARD Non-Tax Revenue Directorate identified the gap in revenues and brought the issue to the attention of the gov-

ernment two years ago. As a result, a temporary Highway Tax Law was drafted to collect this tax by adding one AFN/liter on motor fuel. The draft law went through the legal process and was passed under the new name of the Excise Tax on Motor Fuel Law, meaning the excise tax replaced the road tolls law. The ARD estimated last week that this law would result in an increase of 3 billion AFN by the end of the current fiscal year. As soon as possible, the MoPW will build and establish entrance and exit gates around the cities and will pass a procedure to collect this tax accordingly. The law was published in the official Government Gazette, so the ARD has the authority to implement the law and begin collecting revenue.

Revenue Reconciliation Database

Revenue Reconciliation Database Team Remediates Current Revenue System Issues in Kandahar, Kunduz, and Herat Provinces: At the request of ARD, USAID approved the project's implementation plan for remediating RRD issues in the six priority provinces of Kandahar, Kunduz, Herat, Mazar, Nimroz, and Jalalabad. During November and December, the project's RRD team and two ARD officials traveled to Kandahar, Kunduz and Herat provinces to address the RRD issues.

The team established a sub-network for the revenue collection unit in the mustofiat, performed a re-installation of the system with licensed software, updated the security software on the computers, conducted training for data entry operators, and used technology features to limit access to prevent or reduce potential misuse of the system in the future. At the end of each trip, the team officially handed over the latest version of the RRD application to local ARD representatives.

Key RRD activities in each province included:

- Installation of Windows XP, MS Office 2010, Kaspersky 2012 Antivirus and updating Windows and antivirus software.
- Installation of MS SQL Server 2008 R2 Express version with updated data in one computer as local data server.
- Installation of the new version of the RRD

Application and setting up a sub-network in the revenue section.

- Training ARD technical staff in installation and data entry for the RRD application.
- Training mustofiat revenue section staff on the RRD application.

Having ARD officials accompany the RRD team helped build the capacity of ARD resources to install the application and address RRD technical issues, making RRD more sustainable in the future.

During the trip to Herat, the team found that RRD faced problems generating revenue reports, including the M29, closing balance, and revenue arrears reports, as a result of the change in the government fiscal year. The MoF moved the beginning of the fiscal year to December 21 from March 21. RRD was developed according to the old fiscal year, so RRD reports are based on this fiscal year. This fiscal year change has not yet been addressed in the RRD. DM Said Mobin Shah sent a letter that

requested the support of USAID and the project team to help the ARD address these changes, and the project shared the letter with USAID to seek guidance on the matter.

USAID instructed the project to complete the remediation of the software and make the necessary changes to RRD to align it with the new fiscal year in the 6 priority provinces. The project estimates that 30 working days will be needed to remediate RRD issues in the three remaining provinces and upgrade RRD based on the new fiscal year in the 6 priority provinces.



The RRD team remediates RRD issues in the Kandahar Mustofiat and trains ARD officials on the RRD database.

Workplan Challenges

Non-Tax Revenue / Tax Policy

The current internet bandwidth at the MoI Traffic Directorate is not sufficient to support ASYCUDA system operations. In order to facilitate the move of the Kabul Customs ASYCUDA system to the MoI Traffic Directorate, funding for this additional internet bandwidth needs to be provided. The MoI Deputy Minister of Administration, Major General Mr. Mirza Mohammad Yarmand, agreed to provide the internet bandwidth required to establish ASYCUDA operations at the Traffic Directorate and issued an official order, but this has not yet been implemented. A follow up meeting is scheduled with MoI and MoF senior officials to help facilitate the implementation of this order.

Program Budgeting

Challenge 1: Despite a proactive role by the MoF and the launch of PFM reforms to increase budget execution, transparency, and service delivery, the lack of effective coordination and communication continue to undermine the reform process and effectiveness of technical assistance in line ministries. This issue can be partially addressed by placing 10 project embedded advisors at the MoF. This would help facilitate coordination between sectors and line ministry officials.

Challenge 2: Even though the budget was submitted to Parliament 45 days before the new fiscal year, as required by law, the budget review process took a significant amount of time. The budget was rejected on December

22 by the Wolesi Jirga, or the lower house of Parliament. The delay in the approval of the budget will delay the implementation of new projects. One of the reasons for the low budget execution in the past several years continues to be the late approval of the budget. This has occurred in almost all years since 1385, when the budget was first discussed and approved by Parliament. The Government and Parliament need to find a solution to the deadlock during the budget review process by Parliament. One solution could be that the Government submits the draft budget to Parliament 60 days before the fiscal year. Another solution could be that the Parliamentary review and approval process uses a more structured approach with tight deadlines.

Provincial Budgeting

The project's provincial budgeting support to MoF is still on-hold, pending for official approval from MoF. USAID and project representatives continue to discuss this support with MoF, and there are positive signs that this issue will be resolved soon.

Provincial Tax Administration

Obtaining revenue collection data and tax return filing from the Mazar MTO continues to be challenge for the tax administration team. Each month, the team's reporting is held up waiting for data from Form M29. To resolve this issue, the project hired a new local staff to work with the Mazar MTO beginning in late January 2013.

Revenue Reconciliation Database

The MoF moved the beginning of the fiscal year to December 21 from March 21. RRD was developed according to the old fiscal year, so RRD reports are based on this fiscal year. As a result of the fiscal year change, there are issues with generating reports including the M29, closing balance, and revenue arrears report. This fiscal year change has not yet been addressed in the RRD. DM Said Mobin Shah sent a letter requesting the support of USAID and the project team to help the ARD address these changes. USAID instructed the project to complete the remediation of the software and make the necessary changes to RRD to align it with the new fiscal year in the 6 priority provinces. The project estimates that 30 working days will be needed to remediate RRD issues in the three remaining provinces and upgrade RRD based on the new fiscal year in the 6 priority provinces.

Other Workplan Activities

Provincial Tax Administration

Adam Smith International Training Coordination: During the month of December the team held several meetings with ASI in response to instructions from the ARD Deputy Minister of Finance to work with ASI to avoid redundancies in training provided to ARD. The team's training was aligned with that of ASI to the extent that Kabul

LTO and MTO accounting and audit trainings will follow a similar format as those provided by ASI, and may be taught by a team of project and ASI instructors. Training for provincial employees will remain taught in blocks without adhering to ASI's format.

Revenue and Tax Policy / Non-Tax Revenue

The Project's Non-Tax Revenue Advisor Supports Preparations Non-Tax Revenue Reform Activities at the Ministry of Mines: In early December 2012, the project advisor attended several meetings organized by the ARD Non-Tax Revenue Director, Amina Ahmady, to review the Ministry of Mines (MoM) Revenue Reform Project (RRP) that was launched in early June 2011. In January 2011, the Minister of Mines, Mr. Shahrani, and the Minister of Finance, Mr. Zakhilwal, signed a memorandum of understanding to establish a level of support and cooperation between the two ministries towards improving procedures for mining non-tax revenues collection and financial reporting. To fulfill this goal, the RRP team, which consists of three members from the MoF and five members from the MoM, began a study of the current revenue collection process in Kabul, Balkh, Herat and Nangarhar provinces.

Considering the available technical assistance of donor projects including DFID/ASI and USAID/EGGI, the Non-Tax Revenue Director planned to begin the MoM revenue reform project. ASI hired a short-term expat advisor to support this initiative. The ARD Non-Tax Revenue Director also requested project support for the MoM revenue reform effort because of the success of the advisor in supporting non-tax revenue reforms at the Ministry of Interior Traffic Directorate.

Per USAID guidance, the project advisor discontinued to support MoM revenue reforms implementation efforts.

Year 4 Workplan

During the quarter, the project's technical advisors and project management devoted significant attention to developing and attaining counterpart approval for the Year 4 workplan. After developing an initial workplan for each workstream, advisors conducted several rounds of meetings with key counterparts to solicit feedback, gain buy-in, and get official approval for the workplan. During this process, several of the workstreams changed significantly, including Workstream 2—Revenue and Tax Policy/Non-Tax Revenue and Workstream 3—Program Budgeting.

The project received official counterpart approval for all workplans except program budgeting. GIROA counterparts provided letters to USAID and the project verifying their agreement with the Year 4 WBS. Program budget support activities to the MoF are currently on hold pending MoF guidance.

Project Activities by Regional Command

Regional Overview

In Q1 of Year 4, project activities at the provincial level centered on provincial budgeting reform coordination activities, tax administration support to MTOs, and the expansion of the Women in Government Internship Program. The tax administration team continued support to the provincial MTOs, and the Herat, Jalalabad, and Mazar MTOs exceed their FY 1391 annual collection targets. Revenue mobilization and tax return filings increased significantly in most provinces. 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 and supported the MoE's 34 provincial line directorates to prepare budget proposals for the 1392 national budget. The Women in Government team also expanded to Nangarhar during the quarter and continued internship activities in Mazar and Herat.



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

Regional Command West—Herat

Tax Administration: The Herat MTO collected a total of 48,396,810 AFN in December, which represents 73% increase over the previous months when collections were 27,906,621 AFN. During the quarter, Herat MTO collected 97,840,675 AFN, which represents a 142% increase compared to the same quarter in 2011 when collections were 40,509,152 AFN. To date, Herat MTO has surpassed its adjusted annual collection target, having collected 330,925,034 AFN, a 79% improvement over tax year 1390 when collections were 186,421,288 AFN.

Additionally, Herat MTO taxpayers filed 231 tax returns. These filings take Herat MTO tax return filing to a total of 6,719 tax return, which is 91% better than in tax year 1390.

Provincial Budgeting: During the quarter the project's provincial budgeting officers attended monthly Herat PDC meetings to better understand development project priorities. The project also briefed west region USAID representatives on the project's provincial budgeting activities in October.

Women in Government: In October, 20 recent female graduates began internships in Herat. The interns attended a USAID coordination meeting that was organized to understand the interns' views, ideas, and suggestions on how to improve the internship program. The team also attended the Herat PDC meeting in November and introduced the Women in Government Internship program.



Regional Command East—Nangarhar, Laghman, Wardak, Kapisa, Parwan

Tax Administration: The Jalalabad MTO collected 30,005,277 AFN, representing a 39% increase over the previous months. During the quarter, Jalalabad MTO collected 92,612,104 AFN compared to 78,948,120 AFN collected for the same quarter in 2011, a 17% year on year increase.

Provincial Budgeting: During the quarter the project's provincial budgeting officers attended monthly Nangarhar PDC meetings to better understand development project priorities. The project also briefed east region USAID representatives on the project's provincial budgeting activities in October

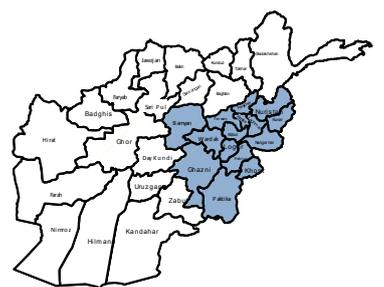
On December 2, the provincial budgeting team met with Wardak Provincial Council Director, Mr. Shirshah Bazon, to discuss provincial budgeting activities and Provincial Council inputs to the FY 1392 budget through the provincial directorates.

On December 9, the team met with Laghman Education Director, Mr. Asadullah Roya, to brief him on the status of the World Bank

funding commitment for the MoE pilot projects implementation and CBT workshops for PEDs in 2013. The MoE has received \$20 million of additional grant funding from the World Bank through EQUIP. \$17 million of the total funding will be spent on MoE pilot projects implementation, and the remaining \$3 million will be used to fund CBT workshops for PEDs to help the provincial staff implement the pilot projects properly.

On December 9, the provincial budgeting team also met with the Laghman Provincial Council Director, Mr. Meer Hatam, to brief him on provincial budgeting reform and discuss the Provincial Council inputs to line ministries through provincial directorates for the FY 1392 national budget. the FY 1392 national budget.

On December 16, the team met with Kapisa Provincial Council Director, Mohammad Hussain Sanjee, and other members to discuss member travel to the districts to understand resident needs and inputs to the FY 1392 national budget.



On December 30, the team met with Parwan Provincial Council Director, Ahmad Zaki Zahid, to discuss member travel to the districts to gather resident needs and inputs to the FY 1392 national budget.

Women in Government: The Women in Government team officially launched the internship program in Nangarhar province. Twenty recent female graduates began internships in early November 2012.

QI Training Summary

QI Training by the Numbers:

531—Person-days of training in fiscal policy and financial administration

1,697—Person-days of training as part of the Women in Government Internship Program

47—Number of tax enforcement training participants

1,582—Number of women trained



EGGI Training Summary

Table: Number of Male and Female Stakeholders Trained by EGGI, October through December 2012

ID	Workstream	GIROA Counterparts Trained	Training Topic	Location												Total # of Participants by Gender			Total Training Days	Person Days Trained
				Kabul		Mazar		Herat		Jalalabad		Kunduz		Kandahar		Male	Female	Total		
				M	F	M	F	M	F	M	F	M	F	M	F					
W2	Non-Tax Revenue	ARD-NTR	Project Management Basics	10	3	-	-	-	-	-	-	-	-	-	-	10	3	13	3	39
W2	Non-Tax Revenue	MoF and SOEs	SOEs Revenue Reporting Reform Workshop	91	5	-	-	-	-	-	-	-	-	-	-	91	5	96	1	96
W3	Program Budgeting	MoIC	Budget Training Based on Risk Assessment	3	1	-	-	-	-	-	-	-	-	-	-	3	1	4	1	4
W5	Tax Administration	MOF	Tax Enforcement	44	3	-	-	-	-	-	-	-	-	-	-	44	3	47	3	141
W6	RRD	MOF/ARD	Revenue Reconciliation Database (RRD) and MS SQL 2008 R2 Installation and Using	2	-	-	-	-	-	-	-	-	-	3	-	5	-	5	1	5
W3	Program Budgeting	IDLG	Program Budgeting Training	66	2	-	-	-	-	-	-	-	-	-	-	66	2	68	2	136
W3	Program Budgeting	AGHCO, and MEW	Procurement and Financial Planning	18	5	-	-	-	-	-	-	-	-	-	-	18	5	23	1	23
W3	Program Budgeting	MOWA	Program Budgeting Concept & Structure, Program Casting and Budget Execution	11	24	-	-	-	-	-	-	-	-	-	-	11	24	35	2	70
W6	RRD	MoF-ARD	Revenue Reconciliation Database (RRD) and MS SQL 2008 R2 installation and Use	-	-	-	-	9	-	-	-	8	-	-	-	17	-	17	1	17
Fiscal Policy and Financial Administration Sub-Total				245	43	-	-	9	-	-	-	8	-	3	-	265	43	308	15	531
W 7	WIG	Interns	Assessment Tool Strategies	-	-	-	17	-	-	-	-	-	-	-	-	17	17	17	1	17
W 7	WIG	Interns	Database Training	-	-	-	17	-	-	-	-	-	-	-	-	17	17	17	1	17
W 7	WIG	Interns	Business writing	-	-	-	17	-	-	-	-	-	-	-	-	17	17	17	1	17
W 7	WIG	Interns	Proposal Writing	-	-	-	-	-	19	-	-	-	-	-	-	19	19	19	1	19
W 7	WIG	Interns	Microsoft Outlook Training	-	-	-	-	38	-	-	-	-	-	-	-	38	38	38	1	38
W 7	WIG	Interns	Orientation for New Interns	-	90	-	-	-	-	20	-	-	-	-	-	110	110	110	1	110
W 7	WIG	Interns	ICT Workshop	-	132	-	-	-	-	-	-	-	-	-	-	132	132	132	1	132
W7	WIG	Interns	Access Database	-	-	-	19	-	-	-	-	-	-	-	-	19	19	19	1	19
W7	WIG	Interns	Access Database	-	-	-	18	-	-	-	-	-	-	-	-	18	18	18	4	72
W7	WIG	Interns	Leadership	-	-	-	18	-	-	-	-	-	-	-	-	18	18	18	2	36
W7	WIG	Interns	Leadership	-	-	-	14	-	-	-	-	-	-	-	-	14	14	14	1	14
W7	WIG	Interns	Report Writing	-	-	-	-	19	-	-	-	-	-	-	-	19	19	19	2	38
W7	WIG	Interns	Communication & Filling	-	-	-	-	30	39	-	-	-	-	-	-	30	39	69	1	69
W7	WIG	Interns	ICT	-	104	-	-	-	-	18	-	-	-	-	-	122	122	122	1	122
W7	WIG	Interns	ICT	-	110	-	-	-	-	-	-	-	-	-	-	110	110	110	1	110
W7	WIG	Interns	ICT	-	93	-	-	-	-	-	-	-	-	-	-	93	93	93	1	93
W7	WIG	Interns	Business Writing	-	106	-	-	-	-	-	-	-	-	-	-	106	106	106	1	106
W7	WIG	Interns	ICT	-	-	-	-	-	-	18	-	-	-	-	-	18	18	18	2	36
W7	WIG	Interns	MS PowerPoint	-	-	-	-	-	-	18	-	-	-	-	-	18	18	18	1	18
W7	WIG	Interns	Effective Presentation Skills	-	-	-	-	-	-	18	-	-	-	-	-	18	18	18	1	18
W7	WIG	Interns	CV and Resume Writing	-	-	-	-	19	-	-	-	-	-	-	-	19	19	19	1	19
W7	WIG	Interns	ICT	-	-	-	-	19	-	-	-	-	-	-	-	19	19	19	2	38
W7	WIG	Interns	ICT	-	110	-	-	-	-	-	-	-	-	-	-	110	110	110	1	110
W7	WIG	Interns	ICT	-	93	-	-	-	-	-	-	-	-	-	-	93	93	93	1	93
W7	WIG	Interns	Interview Skills	-	104	-	-	-	-	-	-	-	-	-	-	104	104	104	1	104
W7	WIG	Interns	Management and Administration	-	83	-	-	-	-	-	-	-	-	-	-	83	83	83	1	83
W7	WIG	Interns	ICT	-	83	-	-	-	-	-	-	-	-	-	-	83	83	83	1	83
W7	WIG	Interns	Self-Confidence	-	66	-	-	-	-	-	-	-	-	-	-	66	66	66	1	66
Women in Government Sub-Total				-	1,174	-	120	30	153	-	92	-	-	-	-	30	1,539	1,569	35	1,697
Overall Total				245	1,217	-	120	39	153	-	92	8	-	3	-	295	1,582	1,877	50	2,228

October through December 2012 Counterpart Meetings

Counterpart Meetings

- 22 meetings with Tax Policy GIRoA counterparts and stakeholders.
- 37 meetings with Non-Tax Revenue GIRoA counterparts and stakeholders.
- 73 meetings with Program Budget GIRoA counterparts and stakeholders.
- 20 meetings with Provincial Budget GIRoA counterparts and stakeholders.
- 13 meetings with Tax Administration GIRoA counterparts and stakeholders.
- 17 meetings with RRD GIRoA counterparts and stakeholders.
- 91 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.

USAID/EGGI
Shash Darak
Kabul, Afghanistan

www.eggi.af

Dedicated to Economic Growth

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.