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MID-TERM EVALUATION OF ECONOMIC GROWTH AND GOVERNANCE INITIATIVE (EGGI) PROJECT

FINAL REPORT
JUNE 2012

June 27, 2012

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LIST OF ACRONYMS

ACSS	Afghanistan Civil Service Support Program
AFMIS	Afghanistan Financial Management Information System
ANDS	Afghanistan National Development Strategy
ARD	Afghanistan Revenue Department
ARTF	Afghanistan Reconstruction Trust Fund
ASI	Adam Smith Institute
AUSAID	Australian Agency for International Development
CCN	Cooperating Country National
CDP	Capacity Development Program
CGA	Cartography and Geodesy Agency
COP	Chief of Party
CY	Calendar Year
DFID	Department for International Development
DFPEA	Department of Fiscal Policy and Economic Analysis
DG	Director General
EG	Economic Growth
EGGI	Economic Growth and Governance Initiative
FPU	Fiscal Policy Unit
GIROA	Government of the Islamic Republic of Afghanistan
GRM	Government Reporting Module
IARCSC	Independent Administrative Reform and Civil Service Commission
ICT	Information and Communications Technology
IDLG	Independent Directorate for Local Government
IRM	Internal Revenue Manual
ISAF	International Security Assistance Force
IT	Information Technology
LTO	Large Taxpayer Offices
MBW	Making Budget Work Project
MIS	Management Information System
MOF	Ministry of Finance
MOI	Ministry of the Interior

MOWA	Ministry of Women's Affairs
MRRD	Ministry of Rural Rehabilitation and Development
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTO	Medium Taxpayers Offices
NGO	Non Governmental Organization
NTR	Non Tax Revenue
PFM	Public Financial Management
PFPP	Procurement and Financial Plans
PRT	Provincial Reconstruction Team
RRD	Revenue Reconciliation Database
RRS	Revenue Reconciliation System
SAB	Strengthening Afghanistan's Budget Project
SIGTAS	Standard Integrated Government Tax Administration System
STO	Small Taxpayer Offices
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USG	United States Government
WIG	Women In Government

ACKNOWLEDGMENTS

The Evaluation Team would like to express its' gratitude to Amanda Fong, Richard Chen, Abdul Qadir Danish and Office of the Economic Growth staff of the USAID Mission to Afghanistan for all of their assistance and support in the execution and preparation of this evaluation. In addition, the staff of the EGGI Program were extremely helpful and forthcoming with both information and assistance, which is greatly appreciated. The Team would also like to thank the Government of Afghanistan, in particular those institutions and employees cited in Appendix C of this report, for their assistance and cooperation.

EXECUTIVE SUMMARY

The purpose of this mid-term evaluation effort is to assess the performance and reach of major efforts carried out in year 3 of the Economic Growth and Governance initiative (EGGI) targeting key Afghan economic governance institutions in the public financial management area; and to derive appropriate lessons learned from the implementation and impact of the program thus far. The evaluation focuses specifically on seven key work streams defined by USAID for EGGI's Year 3 implementation. These include program budgeting, provincial budgeting pilot activities, provincial tax administration, economic/fiscal policy support, revenue and policy, revenue reconciliation data base support, and the Women in Development Partnership Program

The mid-term evaluation of EGGI thus concentrates upon the results of previous years' work through the lens of the revised contract between USAID and Deloitte Consulting, LLP, the implementing partner. The key overall finding which emerges from the assessment is that the EGGI Program has had significant substantive successes in the provision of technical assistance at the operational level. At the same time its impact at a policy level has in most areas been muted, and at times unsuccessful.

In the Economic and Fiscal Policy Support work stream, EGGI failed to make progress in assisting the Government of the Islamic Republic of Afghanistan (GIROA) to adopt and implement a simulation model written using the E-Views software package, or to assist them in enhancing their skills in econometric modeling. In this regard it did not improve their capacity to provide accurate and timely economic and fiscal forecasts.

In the Revenue and Tax Policy work stream, the EGGI Team has delivered effective assistance to the MOF, which has led to reforms which are promoting rationalization of a high-visibility stream of non-tax revenues in the Traffic Department of the Ministry of the Interior (MOI). However EGGI has not able to provide impactful assistance in training the Tax Treaty Office staff of the Afghanistan Revenue Department (ARD) in the Ministry of Finance (MOF).

The Program Budgeting Reform work stream has seen significant successes at the operational level, assisting 46 of 54 budget units in adopting and implementing the administrative processes involved in the program based budget development process, participation in the budget hearings process, preparation and utilization of procurement and financial plans, and the accurate submission of performance reports. At the same time, on more systemic questions of budgetary policy, budget systems development, and necessary improvements to the systems in place, the EGGI Team has had limited tangible impact.

The pilot provincial program budgeting process has been a substantive success in a process sense. This success has at the same time been tempered by the lack of funding for many of the projects developed and selected through the pilot program. While expansion of the process may be implemented, the failure of the pilot to link directly to implementation of all the projects developed may compromise progress and has generated concern about potential political legitimacy impacts at the provincial level.

Activities in the Provincial Tax Administration work stream also yielded significant operational improvements in the MTOs in two of the pilot provinces. At the same time the combination of little impact in other provincial offices and lack of engagement at the policy level has limited the scope and raises concerns regarding the potential sustainability of progress in this area.

The Revenue Reconciliation Database work stream has been charged with repairing a system delivered by the Program in previous years, but without sufficient safeguards to ensure its' robustness. This work stream is, however, reportedly moving towards full restoration of system functionality by the close of Year 3.

The Women in Government work stream, which is designed to place women in permanent jobs through internship-based training programs, has exceeded its' initial Year 3 goal of 60 enrollments by 100%. Overall the program has enrolled a total of 162 participants during its 3 year lifespan. At the same time the program's actual placement rate for graduates currently stands at 56%, which is not inordinately impressive for a pre-placement based program. In addition the placement rate has fallen significantly for the last two enrollment groups, which is a somewhat worrisome trend.

While there are many factors that influenced success and failure in the 7 EGGI work streams, the record of the EGGI Program includes a number of operational successes, tempered by a limited capacity to effectively engage on overarching fiscal policy framework issues important to the long-term impact of USAID assistance.

INTRODUCTION

The USAID Economic Growth and Governance Initiative (EGGI) Program began operations in 2009. While its original scope of assistance included work with business development, banking, and public finance, a "right sizing" in 2011 reduced its original three components to a single component including the seven work streams detailed below. Overall, these seven all relate to the provision of support in core public fiscal and financial management areas.

The purpose of this mid-term evaluation effort is to assess the performance and reach of major efforts carried out in year 3 of the EGGI in each of the aforementioned seven public financial management work streams; and to derive appropriate lessons learned from the implementation and impact of the program up until the present time. The evaluation is based upon the review of relevant public financial management-related reports and legal/regulatory framework documents; and a series of focused interviews with relevant public sector officials, donors involved in public financial management activities, relevant NGOs, and EGGI staff. The analytical approach taken is based upon a rigorous comparison of project performance in each of the seven referenced areas against performance goals envisaged in the EGGI contract and Year 3 work plan; as well as against better practice standards in core public financial management at the international level. The core questions focused upon in the review included the following:

EGGI has completed more than half of its 3rd year of operation. The seven work streams which are analyzed were established through the revised contract between USAID and Deloitte Consulting, LLP and the approved Year 3 EGGI Work Plan. The evaluation team has reviewed the implementation progress of work activities in each of these areas; and assessed the impact which the efforts in each work stream have had on the efficiency and transparency of the public financial management processes they are targeted to address. The work streams we focused on included the following areas:

- ⤴ Economic and Fiscal Policy Support
- ⤴ Revenue and Tax Policy
- ⤴ Program Budgeting Reform
- ⤴ Provincial Budgeting Reform
- ⤴ Provincial Tax Administration
- ⤴ Revenue Reconciliation Database
- ⤴ Women in Government

In general, EGGI activities have been concentrated at the operational or administrative level of program fulfillment. This has limited their contributions to policy dialogue processes to such an extent that numerous elements of a properly constructed system of public financial management have not been

included. In general, the inability of the EGGI Program to come to grips with critical “policy architecture” aspects of the budget and taxation regime is due in part to counterpart interest/commitment, and in part to their lack of a robust approach to making their policy level advice heard within the Ministry of Finance. The lack of such a developed approach has been further reduced by a narrowed definition of the support to be offered evidenced in the EGGI Year 3 Work Plan.

The primary organization of this evaluation is based upon the seven approved work streams as outlined in the Year 3 EGGI Work Plan, which was approved by the USAID Mission.

ECONOMIC AND FISCAL POLICY SUPPORT

Introduction

At the beginning of Year 3, this work stream was assigned to a single EGGI advisor. He began work with the Fiscal Policy Unit (FPU) of the Ministry of Finance in November 2011. Following the development of a fiscal projections model by Dr. Steven Symansky, and initial training in its use during late 2011, it had been determined that the staff of the Fiscal Policy Unit was insufficiently familiar with the operation of the software in which the model was developed, *E-Views*, to be able to operate the model and make effective use of its' potential. As a result, the following objectives were set through the Year 3 EGGI Work Plan and revised contract for technical assistance to the Government of the Islamic Republic of Afghanistan (GIROA):

- ▲ Enhance the Fiscal Policy Unit's (FPU) ability to manage fiscal policy;
- ▲ Ensure the FPU understands the *E-Views* software;
- ▲ Ensure the FPU understands econometrics and simulation models; and
- ▲ Ensure the FPU is able to develop the MTBF model and do long term projections using the *E-Views* software package and the econometric simulation model.

The objectives cited above represent a distillation of seven key activities from the Year 3 Work Plan, ranging from assessing the capabilities of the FPU staff in data analysis, modeling, and forecasting through the development and delivery of four blocks of training to a final review with the FPU Head (now the Acting Director of the Fiscal Policy and Economic Analysis Department [DFPEA]) and the provision of “informal on-the-job support for the use of E-Views by FPU staff”. They were developed in response to language in the contract that, under “Supporting National and Regional Economic Policy-making” called for EGGI to “...demonstrate that it has strengthened the GIROA's capacity to develop and implement sound economic policy at the national and regional levels” through Planned Results 1 (“...an analysis capability is established in the MOF...”), 2 (“Office of the Minister of Finance competent in developing and establishing effective economic policies...”), and 3 (“MOF's ability to provide quality quantitative support and analysis for critical MOF functions , strengthened, such as further development of the medium-term expenditure framework (MTEF), macroeconomic projections, revenue and expenditure forecasts, and *policy analysis and simulations* (emphasis added)”.

The advisor to the FPU, who was also assigned to assist with improvements in non-tax revenues, was removed from the project due to lack of results in the third week in February 2012. The FPU's status was enhanced in May 2012 by its conversion to the DFPEA, but its' Acting Director will be leaving for a multi-year course of study in the United States in the summer of 2012.

The methodology used to evaluate these tasks and progress toward their accomplishment included a series of interviews with the management and staff of the FPU/, extensive interviews with the EGGI Chief of

Party, discussions with the USAID Mission, and mention of this function in discussion with the Deputy Minister of Finance. Throughout those discussions and interviews, a consistent response pattern indicated general agreement on activities under this work stream.

Conformance to Economic Development Strategies

This work stream was clearly designed to address elements of **Key Theme/Reform Objective 1.02, Medium-Term Fiscal Strategy**, of the GIROA Public Financial Management (PFM) Road Map, specifically those sub-objectives dealing with estimates of revenues and other fiscal pressures for inclusion in the Medium Term Budget Framework and/or Medium Term Fiscal Framework.

The development and delivery of the forecasting model in E-Views was the centerpiece of the designed technical assistance. However, the fact that this model was written in software that the responsible GIROA body was unable to use ensured that its usefulness was vitally dependent upon the provision of high impact technical/training support to facilitate its effective integration into core FPU budget forecasting activities. While the FPU was and remains comfortable with spreadsheet-based forecast calculations, the technology delivered thus required accompanying delivery of substantive technical assistance, which GIROA authorities indicated was desirable.

Assistance Delivery and Results

The EGGI advisor delivered eight approximately two-hour training sessions in the *E-Views* software in an effort to improve the technical skills of the FPU management and staff. This assistance addressed the “first block” of E-Views training under Activity 3 of the Work Plan. Staff and management comments indicate that they believe the level of materials preparation and advisory expertise in the software package were insufficient to transfer technical knowledge effectively. In addition, FPU staff indicated that they were busy preparing and delivering their regular rounds of reports and *ad hoc* requests from the Ministry, that they are very understaffed (generally valid), and that they were thus too busy to spend the necessary time on training. The FPU thus requested that the technical assistance be terminated. After a series of discussions between the Program, USAID, and the MOF, training and other technical assistance to the FPU to build their capacity to utilize the model was terminated.

The assistance provided did not fully accomplish any of the four stated objectives for this work stream, nor were any of the key activities and deliverables from the EGGI Year 3 Work Plan accomplished other than the initial assessment and development of the program outline for the training. A partial success is that the staff of the FPU is aware of the ways in which econometrics and simulation models could be used to improve the forecasts produced. In discussion, staff specifically rejected any suggestion that additional assistance to learn *E-Views* or on econometrics and simulation models be delivered by EGGI. No efforts were made to deal with gender issues in this work stream, and no apparent issues were involved in its execution.

As with most of the EGGI program's assistance provision within the Ministry of Finance, issues of donor cooperation and coordination are important to an evaluation of activity in this work stream. At the time of the EGGI advisor's assignment to the FPU, there were three senior-level international advisors from the DFID Strengthening Afghanistan's Budget (SAB) Project implemented by the Adam Smith Institute *in situ* in their offices, and no space was provided to the EGGI advisor. In addition, and as already mentioned, the entire 5-person staff of the FPU consists of CCN hired and paid by the UNDP MBAW Project, which also provides senior budget advisory support. In effect, when providing this assistance, the EGGI team was training employees financed through another donor, and more importantly, a donor whose “Corporate Identity” might complicate the establishment of an environment of proactive collaboration with the

advisor; thus reinforcing the other training quality and outreach effectiveness issues discussed above and limiting counterpart receptivity to the technical support/training efforts in this area.

Conclusions and Recommendations

The combination of other donors' advisory and operational presence and the lack of Tashkeel employees created a clear receptivity and sustainability issue for the program in this work stream. At the same time, the EGGI Team could and should have made more impactful efforts to demonstrate to the FPU staff of the value of econometric analysis and related budgetary modeling tools to improve the rigor and accuracy of their budgetary forecasting activities and thus to generate more reliable and efficient fiscal policy recommendations.

In direct response to the questions posed in the evaluation SOW: No measurable successes were achieved in this work stream, and the challenges involved in providing this assistance were not overcome by the EGGI project, despite the clear opening for delivery of this assistance provided by the development of the model by Dr. Symansky and subsequent MOF requests. The Project's inability to deliver advisory and technical assistance services in a form which promoted buy-in from the counterpart entity meant that no progress was made on Expected Results 1, 2 or 3 from modification 14 to the Contract.

No significant capacity increases for GIROA can be attributed to the provision of this time limited (approximately 2 months) technical assistance; although it is possible that some recruitment may begin in the near future.

Core recommendation: It is recommended that an evaluation of the potential for re-engagement be conducted if the Ministry of Finance hires a significant number (at least 4) of additional qualified Tashkeel employees.

REVENUE AND TAX POLICY

Introduction, Background and Methodology

This work stream is directed toward enhancements to the collection of non-tax revenues by GIROA and building capacity in its tax treaty office. The Ministry of Finance's Afghanistan Revenue Department (ARD), in cooperation with EGGI, identified the most important source of government non-tax revenues, those collected by the Traffic Department of the Ministry of the Interior, as the area in which EGGI should concentrate its efforts. A direct request from the Director General of Revenue to assist with this non-tax revenue stream and with tax treaty readiness was received by USAID and EGGI in September 2011, so this work stream was new for Year 3 of the EGGI contract.

Under the Contract's provisions, this work stream falls under activity 1 ("Supporting National and Regional Economic Policy-making"), and is included in Planned Results 1 ("...non-tax revenues are rationalized, revenue collection is increased to cover the operating budget,...") and 3 ("MOF's ability to provide quality quantitative support and analysis for critical MOF functions, strengthened, such as further development of the medium-term expenditure framework (MTEF), macroeconomic projections, revenue and expenditure forecasts, and policy analysis and simulations"). While the provision of Tax Treaty assistance is not directly cited, effective tax treaty administration serves to improve both Tax Policy and enhance revenues. The Year 3 EGGI Work Plan covered the provision of this assistance in two subdivisions, Non-Tax Revenue Reforms and Tax Treaty Negotiation, with five and four projected key activities, respectively. From this evaluation's Statement of Work, the goals for this assistance were to:

- ⤴ Build Capacity in the ARD's Non-Tax Revenue Office;
- ⤴ Advise and make recommendations to the ARD to support increasing non-tax revenues through rationalization of the Ministry of Interior's Traffic Department revenue streams from motor vehicle registration, licensing, and driver licensing; and
- ⤴ Achieve capacity-building results through assistance to the Tax Treaty Office, including understanding of tax treaty models and negotiations.

The EGGI Work Plan included analysis of non-tax revenue streams and development of reform plans in cooperation with the Traffic Department, as well as developing a tax treaty negotiation plan and capacity. The methodologies used to gather information included a discussion with the Brigadier General in command of the Traffic Police in company with EGGI and USAID representatives, followed by extensive discussions with the EGGI COP and staff, as well as a meeting with the Director General of the ARD, the Director of the Non-Tax Revenue Department, and the non-tax revenue specialist assigned to these revenues.

Conformance to Economic Development Strategies

The GIROA PFM Road Map specifically states that “sustainable increases in and management of domestic revenue collection” falls outside its scope, as well as any other issue related to revenues. However, such increases are specifically stated as to be covered in the Government's overall plans for “better financial management”. Thus, while this assistance is not specifically covered by the Road Map, its importance is clearly recognized therein.

Assistance Delivery and Results

No Tax Treaty advisory work took place, as it was stated that the Supervisor (and only staff member) of that office was “never there”. The ARD apparently still does not have an operational tax treaty unit. The EGGI Program was thus unable to engage, or to assist with staffing of the unit, which was an activity listed in the Work Plan.

An international advisor with considerable expertise in tax policy and administration was assigned and attempted to provide technical assistance toward reform of the way vehicle registrations, vehicle licensing, and drivers' license revenues are collected and to suggest ways to enhance those collections. Following the departure of the international advisor, these advisory services were carried through by a national consultant with the support of the EGGI COP. In the process a series of targeted discussions in this area were held and documents were produced by the EGGI Team; in cooperation with the Non-Tax Revenue (NTR) Unit of the ARD.

These efforts included the following core foci/support activities:

- ⤴ Developed and delivered a traffic reform implementation work plan covering vehicle registration/licensing and issuance of drivers licenses;
- ⤴ Reviewed initial vehicle registration process and revenue flow through visiting the Traffic Directorate, the Kabul Traffic Department, Banks, Mustofiats and others;
- ⤴ Reviewed vehicle re-registration and transfer of vehicle ownership processes and revenue flows;
- ⤴ Developed current vehicle registration and driver licensing process flow charts and detailed process descriptions;
- ⤴ Made recommendations on reforming the taxi registration procedures, which have recently been adopted;

- ⤴ Reviewed both national and international current drivers' licensing procedures; and
- ⤴ Developed a report on vehicle registration based on their findings and proposed recommendations.

To date the program has generated three specific reforms that are being implemented or are on the road to implementation: First, Asycuda has been installed on two terminals in traffic department offices, near border areas, and are being operated by customs officers. This is generating weeks in time savings per vehicle for vehicle registration documents to be sent to the Traffic Department; as well as introducing greater transparency in payment processes. Second, a fee system (200 AFN's) has been introduced for the driver's license exam, and the prior system of "informal" payments to instructors for the use of their own car in driving exams effectively undercut. Third, a significant taxi licensing reform proposal has recently been approved by a reform working group/committee; including both the MOF and MOI, as well as the Ministry of Transport, the Afghan Chamber of Commerce and Industries and the Anti-Corruption Commission. The proposal significantly increases current taxi licensing fees (e.g. from 830 AFN's to 60,000 AFN's in Kabul province); and transfers the license issuance process from the MOI Deputy Minister's office back to the Traffic Department. The approved reform proposal has now been forwarded to the Economic Committee of the Council of Ministers for final GIROA approval. Once in place, this will in turn both generate a new non-tax revenue stream, as well as eliminating a significant source of parallel "unofficial" licensing fees.

The EGGI Project has helped create institutional momentum through the above referenced reform working group to drive forward on these reforms in the face of extremely sharp opposition from the MOI. In addition, through the efforts of the project, the staff member assigned to this area within the non-tax revenue department of the ARD has expanded his technical capacity significantly, as well as his ability to work toward efficient proposed solutions to problems related to transparent and revenue-enhancing vehicle registration policies/practices. In addition all reports indicate that there has been thorough and effective donor coordination in this work stream (with Canadian and ISAF-based support initiatives).

Gender

While it might reasonably be argued that there is a general economic benefit to households inherent in proper reforms to the vehicle and personal registration systems, as well as to drivers' licensing processes, and that such a benefit will in some part accrue to the female population, it is unlikely that there will be an immediate and direct benefit by gender, other than that of making the registration of vehicles and the granting of drivers' licenses more transparent and accessible. Thus, no direct gender-based reforms have been addressed in this work stream.

Conclusions and Recommendations

The Program designed non-tax revenue and tax treaty assistance prior to the identification of the specific non-tax revenues to be enhanced and the creation of the Tax Treaty Unit. In the first case, the EGGI Team's ability to affect change was not significant due principally to unfavorable exogenous circumstances; while in the case of motor vehicle registration/licensing, EGGI technical/training support efforts have yielded significant forward progress in the face of major institutional friction.

The EGGI Program has generally performed in a goal-focused manner in this work stream, seeking ways to gain traction with the GIROA partners in an entrepreneurial way. In direct response to the questions posed in the evaluation SOW: EGGI technical assistance and advisory services have increased the capacities of non-tax revenue Department employees, and there has been a tangible positive benefit from

the assistance in the motor vehicle and driver license registration/licensing area; while there were no tangible performance results from the assistance to the Tax Treaty Office.

Core recommendation: The tax treaty assistance could be reactivated if the Afghanistan Revenue Department shows renewed interest, but the amount of time available may mean that it would require a significantly increased share of program resources. If the Council of Ministers is able to leverage final agreement from the MOI to move forward with approval of the above referenced vehicular registration reforms in the near-term, then serious consideration should be given to the recent requests of the NTR Unit for technical assistance in further capacity-building, public awareness, and enhanced IT systems development.

PROGRAM BUDGETING REFORM

Introduction, Background and Methodology

The Government of Afghanistan is formally committed to the introduction of program budgeting, although certain remarks by Deputy Minister of Finance Mastoor to the evaluation team serve to underscore the complexities of the bureaucratic environment in which this work is being carried out. In this regard the Deputy Minister indicated that the GIROA may not be interested in continuing to pursue program budgeting unless the international donor community funds the programs and projects identified through the new system. While this may indicate the adoption of a negotiating stance by the MOF, it does serve to emphasize the potential fragility of these reforms without sufficient political commitment. Budget line items are either part of the recurrent, or Operations and Maintenance, budget or the development budget. The vast majority of recurrent budget expenditures are funded through GIROA revenues with some budget support from donors, while virtually 100% of the development budget is funded by donor contributions. Additionally, there are massive off-budget expenditures, usually by donors, that support everything from position salaries in government organizations to capital/development projects.

The Ministry of Finance, in cooperation with the Ministry of Economy, controls the budget process. A Budget Committee, composed of members from the Government and the Ministries of Finance and Economy, is charged with responsibility to decide the priorities of the government, set initial budget ceilings, and review and approve budget submissions from budget units. Additionally, final approval of submissions to the parliamentary appropriations process is given by the Council of Ministers. The submitting organizations are ministry-level or other independent organizations, and their submissions cover their central level operations and projects as well as those of their provincial directorates.

In addition to the above, program budgeting has not yet been fully integrated into the appropriations process. Both the Budget Committee and the Parliament approve budgets organized by institution and expenditure category/object code, rather than by program, and separate development budget projects. A changeover to a fully program budget approvals and appropriations format that includes development budget projects with recurrent programs in submissions and appropriations has been put on the agenda for consideration for the 1392 budget process. An important consideration in this regard is that the current appropriations process reflects budgets generated in a program manner through aggregating them at the institution and object levels, with the assignment of funds to programs occurring during the post-appropriation allocations process. These assignments are in turn set out in the Financial Plans submitted by the budget units at the beginning of a fiscal year.

More seriously, the ability of budget units to make use of the allocation efficiencies available through a program budget process is compromised by the marked tendency to create very large programs which in

fact are often program-level operations aggregated at the functional level. As an example, the Cartography and Geodesy Agency (CGA), whose programs might normally be considered to minimally include cartography, geodesy, and cadastre/land registry, has a single program covering all its' operations. This lack of disaggregation significantly reduces the ability of decision-makers to understand what the CGA does, how to measure its performance, and to make proper decisions about the allocation of funds. This also has the effect of making the budget units' budget execution problematic, as funds planned for dedication to support certain program-level operations can be drawn on by other operations to the detriment of the formers' performance in reaching its goals. It appears that the creation of these “large” program categories is part of the “simplification” demanded and implemented by MOF; at least in part in order to avoid rigorous decisions on budgetary expenditures for specific programs. Instead this promotes a less rigorous process of allocating funds in accordance with broader sectoral (i.e. functional) classification categories.

The budget development process itself is relatively straightforward administratively. In the slightly modified 1392 budget process, budget units were requested to submit a BC-1 form that covers and prioritizes all project or programmatic increases to the budget that are different from those appropriated for 1391. Although some ministries consulted with their provincial directorates to ask for their inputs for such requests, others did not. The BC-1 is then submitted to the Ministries of Economy and Finance, who analyze the proposals and make prioritization decisions that include initial budget ceilings. Ministry of Economy processes which are used to make prioritization decisions seem particularly lacking in rigor. Priority projects are chosen based upon a nonspecific judgment of congruence with the Afghanistan National Development Strategy (ANDS); rather than through the use of cost-benefit or cost-effectiveness analysis. The budget units are then charged to make detailed costings for all approved programs using the BC-2 form.

After analysis by the MOF, the detailed costings are presented to the Budget Committee by the MOF and the submitting budget unit. The Budget Committee approves its selection of these, which may often include changes or reductions due to excessive actual costings by the budget units that do not fall within the ceilings, or because the ceilings have been lowered in response to other government priorities in the Committee. The resulting budget is consolidated and presented to the Parliament after approval by the Council of Ministers for appropriations.

Once a new annual budget has been appropriated, budget units are required to submit procurement and financial (cash flow) plans to the MOF, and, after any necessary corrections have been made, the Treasury enters them into the AFMIS system as the controlling parameters for expenditures by time period and object codes. These plans were first required in 1390-91. It is worth noting that, despite the fact that the budget units submit their plans in accordance with their program structure as approved by the MOF, the primary coded controls in the Treasury system are, quite properly, those established by the Parliament. These, as discussed earlier, are appropriated by institution and object code.

Thus, despite preparing their budgets in a program format and despite the fact that program-level codes are available and used to further categorize expenditures, budget units execute their budgets by institution and object code. This leads to an initial allocation of expenditures at the institution and object levels, with sub-allocation by programs occurring during the post-appropriation budgetary allocation process early in each fiscal year. This wedge between the Parliamentary appropriation process and MOF-led budgetary allocation procedures creates ample room for discretionary behavior on the part of line ministries/agencies. This in turn results from the fact that there is no legal requirement for the line ministries/agencies to put forward financial and procurement plans which are consistent with the detailed expenditure breakdowns contained in their program budget submissions for that fiscal year. As a result, this can lead to a

significant loss in allocative efficiency and program effectiveness, as funds are reallocated by line ministries/agencies across sub-programs, without effective oversight from MOF.

New for 1391 is a comprehensive quarterly performance reporting system, whereby budget units are reporting their quarterly expenditures and program performance in relation to targeted outputs and outcomes. Budget units report properly filling these out with information from the Treasury AFMIS system for expenditures and from line departments and/or planning departments (that gather information from line departments) on performance in relation to outputs and outcomes. However, as cited above, the grouping of program-level activities into larger programs can substantially reduce the effectiveness of such reporting.

Past USAID assistance in budgeting dates to the beginning of the current Mission in 2001. Between 2001 and 2006 assistance at all levels from policy to budget units was given to the Ministry of Finance. Subsequently the USAID Capacity Development Program (CDP) began a systematic program to enhance program budgeting capacities at the national level. Beginning in 2007, advisors were embedded in GIROA ministries to assist them in learning how to program budget for their own internal management, since there was little support for program budgeting from the MOF. This assistance continued under the USAID Afghanistan Civil Service Support (ACSS) Program until 2010, when these responsibilities were transferred to EGGI after a re-purposing of ACSS assets.

Under EGGI, the program was expanded, until the current structure of assistance to 38 non-graduated budget units after graduating eight ministries as able to perform program budgeting independently. They also assist with the preparation and submission of Procurement and Financial Plans (PFP) as well as performance reporting in 19 pilot budgetary units. Some of this assistance continues to be offered to line ministries that are considered to be graduated. It is worth noting that EGGI seems to have had no significant policy role in Program Budgeting or the overall design of the current budget process, and the flaws in the budget development and execution processes (above the budget unit level) have never been a significant focus of their efforts. As a result, the project's influence on process design has been significantly attenuated.

The applicable contract provisions governing this work stream fall under main activity **2, Strengthening Public Financial Management**, and more specifically in **Planned Results 5** (“Afghanistan's budget reform plan implemented through establishment of program budgeting and provincial budgeting, and improved budget management, planning, procurement, and execution.”) **and 6** (“ANDS implementation is well-coordinated,...resulting in increased economic growth. Budget expenditures are programmed and executed effectively at all levels of government,...Monitoring systems are in place to ensure that key social programs are implemented...”).

The EGGI Year 3 Work Plan reflected these requirements in **work stream 3, Program Budgeting Reform**, with a key objective “...to facilitate the allocation of budgetary resources in accordance with stated programs and planned outputs...”. The seven planned key activities to assist MOF to “graduate included provision of mentoring and coaching support to 38 assigned budgetary units in the preparation of 1391 and 1392 program budgets, supporting the MOF Budget Department to deliver comprehensive program budgeting training, providing mentoring and coaching to assist 38 line units to prepare PFP and quarterly performance reports during 1391 and to assist the MOF to “graduate” 8-10 ministries to a status whereby they are considered ready to prepare their program budget requests with little or no technical assistance.

Methodologically, this work stream required a comprehensive focus through which to assess EGGI actions/ impact. In addition to meetings with the Deputy Minister of the MOF, the Director General of the Budget, the Budget and Sector Directors, the Manager of Budget Integration and Reform and the Manager of Provincial Budgeting, the evaluation team met with ten line ministries and other budget units at the central level, including four passed ministries; Health, Education, Commerce and Industry, and Agriculture. The evaluation team also met with 3 ministries with mid-level program budgeting skills (Economy, Urban Development Affairs, and Labor and Social Affairs) and 3 budget units with more limited budget development skills (the Independent Directory of Local Government, the national Environmental Protection Agency, and the Agency for Cartography and Geodesy). In each, discussions were held about EGGI assistance, the program budget process, procurement and financial plans (PFP), and performance reporting.

Conformance to Economic Development Strategies

The USAID Economic Growth Office's objectives are under amendment and review. However, assistance to the GIROA includes ensuring that core public financial management systems, including budgeting, are brought into compliance with international good-to-best practice. As effective program budgeting, including efficient budget execution and performance indicators, represent state of the art goals in the fiscal policy area, this assistance is generally compliant with USAID Mission and EG Office strategy/objectives. Assistance in program budgeting delivered by EGGI is specifically related to the GIROA PFM Road Map reform objectives **1.03, Program Budgeting, 2.01 Provincial Budgeting** (given the linkages between central units' provincial directorates and their budgets), **2.02, Procurement, 2.03 Performance Monitoring**, and **3.01 Effective Communication**. The broad spectrum of assistance delivered at the operational level is of material assistance in ensuring that these objectives are met.

Assistance Delivery and Results

The EGGI Program began Year three with a single international advisor and a CCN Deputy supervising its' 32 embedded advisors in budget units. An additional advisor was brought on board in late January, freeing time for the original advisor (who was also supervising the provincial budget work) to work more closely with the provincial budget advisory team.¹ It is worth emphasizing that the lack of co-location with the MOF throughout the 1st two years of the project clearly reduced the visibility and budget policy impact of EGGI's assistance efforts. However since early June the new advisor has been co-located 3 to 4 days per week with the Budget Execution Department of the MOF, which should help to improve communications and advisory impact.

EGGI's program budgeting assistance is delivered through 32 embedded CCN budget advisors in 38 line ministries and other budget units as well as 6 advisors (including the Deputy) in a new mobile budget assistance unit. Embedded advisors may be assigned to serve 1 or 2 budget units, and the mobile unit is designed to respond to requests, both from embedded advisors and those graduated ministries who choose to request assistance. This assignment pattern and staffing may change, as the MOF has indicated that it will request EGGI to permanently station one advisor in each of 14 ministries that collectively account for 87% of expenditures, while maintaining some mobile team capability. The details of EGGI's response to

¹ Shortly after his arrival in late January, the new advisor was restricted to the project compound for a two-week period as part of a general security lock-down. This was followed by a period of limited engagement with the MOF through March. During the April-May period, the advisor spent significant time conducting an assessment of the institutional readiness of the 38 EGGI-supported budget units to assume greater responsibility for budget development processes.

this proposal remain to be worked out, particularly since the selected ministries are also scheduled to be served by 2 UNDP advisors per ministry and, in 4 ministries, an additional 3 AUSAID-sponsored advisors.

The EGGI advisors currently assist their host budget units by mentoring them and in some cases participating in the budget development processes, while also giving them assistance in fulfilling PFP requirements and performance reports. This dedicated assistance process has yielded impressive results at the operational level, with over 90% of budget submissions for 1391 being on time and of acceptable quality, according to the MOF. Preparation for the 1391 budget hearings was also materially assisted by EGGI advisors, with many budget units needing significant assistance to determine how to defend their proposals before the Budget Committee.

EGGI advisors are also providing technical assistance to their assigned budget units in completing the Procurement and Financial Plans (PFP) and the quarterly Performance Reports. In discussion with the evaluation team, the different levels of capacity, and EGGI responses to any gaps, were quite obvious, with those units that had been receiving technical assistance and mentoring longer clearly understanding processes and requirements at a significantly higher level than those to whom less assistance had been provided.

The successes as a result of EGGI efforts in delivering program budget advisory services at the operational level have increased the capacity of budget units to operate the GIROA budget system in a technically correct manner, and with a degree of understanding the systems in place. In the series of ministry interviews it quickly became apparent that the graduated ministries, and indeed the mid-level ministries to a significant extent, understood program budgeting and why they were developing and organizing their expenditures in that manner. While understanding of the reasoning behind the PFP and performance reporting was less, these are both early stage introductions. Given additional budget cycles, it is likely that the budget units served will internalize both the processes and the intellectual basis for program budgeting and the planning and reporting processes.

The challenges inherent in remote embedding advisors in budgetary units should not be underestimated, particularly when introducing thorough reforms to the budget system's processes. The EGGI program succeeded in delivering their services through thorough organization, substantial efforts, and the dedication of their personnel. While the contributions of other donors should not be ignored, the ability of GIROA budget units to prepare program budgets and explain their activities to the Government and the Afghan public has primarily reflected the effective operational support provided through EGGI.

However, the failure of EGGI to capitalize fully on their successes in the technical and operational-level budget development processes by integrating these with changes to budget policy has limited the effects of EGGI's assistance to GIROA. This consistent failure of the Program in Year 3 has been its lack of engagement at the policy level, which has led to a technically satisfactory budget development process, but one whose effects on budget allocations/appropriations, budget execution, and fiscal policy is muted. By defining engagement in purely technical terms at the operational/line ministry budget unit level, the Program and the current course of these reforms neglects budget policy elements needed to fully develop the program budgeting system. The exclusive concentration on process and apparent lack of either significant effort or success in advising on budget policies has meant that no significant progress has yet been made toward "...improved budget management, planning, procurement, and execution." other than in a narrow technical sense.

In fact the systems currently in use by GIROA fail to deploy sufficient analytical rigor in public investment; fail to establish a medium term budget framework linkage between strategic plans and annual

budgets; and do not tightly link performance indicators to programmatic allocations. Performance indicators, as is common during the course of adoption of program budgeting systems, need to be reviewed; not only for the actual outputs and outcomes of the programs, but also to introduce additional rigor into the indicators and the reported statistics. As an example, it is often possible to link performance data collection systems used by line ministries directly to performance indicator reporting, thus verifying data as well as enhancing the utility of the indicators for line ministries' own use as management tools.

Moreover the GIROA is neither taking advantage of the enhanced functionality on offer through their adopted system, nor appropriating in accordance with its structure. These findings provide a clear indication that program budgeting has yet to be fully and effectively implemented; in a manner which is meaningfully impacting budgetary allocation processes.² While it is clear that the provision of high-profile budget policy advice to the MOF remains an ongoing challenge, particularly in light of the dense donor environment in which EGGI operates, it also appears clear that EGGI has not fully capitalized on its operational successes, nor put itself forward in such a manner as to gain an effective hearing for its' policy-related advisory activities. A renewed effort to influence budgetary policy on a substantive basis, and particularly to add the above named elements to the budget system should be a prioritized focus for Program efforts.

In sum GIROA and the MOF are in a better position than ever to both understand and guide the functions that they perform as a result of the USAID and EGGI assistance. At the same time they should be strongly encouraged to take the next steps toward a modern best practice budgetary system centered on effective use of the systems developed by the donor community, often from USAID programs' templates. This will require more effective budget policy-focused support from EGGI.

Gender

In relation to gender-opportunity issues, it appears that while some movement toward introducing gender sensitive elements, programs, or projects into budgetary programs is gaining momentum, this does not appear to be a specific or tangible focus of the EGGI team. The absence of proactive actions to encourage gender sensitive budgeting represents a missed opportunity, in light of the close relationship between EGGI staff and their partner budget units. A results-based effort should be added to the remainder of Year 3 and any out years for the Project, whereby they can encourage the inclusion of gender-specific or sensitive actions and programs in line ministry budgets. Numerous examples of such programs or approaches are available, and could be accessed for specific ideas, then delivered by embedded advisory personnel.

Conclusions and Recommendations

Donor cooperation and coordination is, and has been, a major influence on the course of program budget adoption and implementation; as well as the ability of EGGI and USAID to ensure that best practice is followed in the implementation of program budgets, budget execution planning, and performance reporting for Afghanistan. While there are a number of other donors who assist the MOF to some extent, the primary planned and ongoing assistance to the MOF that has relevance to program budgeting is delivered by the World Bank (in Treasury and Procurement); by DFID's Support to the Afghanistan Budget (SAB) project implemented by the Adam Smith Institute (ASI) (Tax Administration and Budget); by the upcoming AUSAID budget project; by the UNDP's Making Budgets and Aid Work (MBAW) project (Budget); and by the USAID EGGI project. An explanation of each and their role in MOF

² It should be noted that the MOF has indicated that a shift to program-based appropriations is planned for 1392.

assistance is instructive in understanding the environment in which EGGI operates. It should be emphasized that, within the context of numerous adjoining donor projects in the public finance area, it remains incumbent upon EGGI to effectively promote the type of institutional access required to ensure the policy relevance and sustainable impact of its advisory support and training activities.

World Bank assistance in the operation, maintenance, and upgrading of the Afghanistan Financial Management Information System (AFMIS) is central to establishing a comprehensive budgetary reporting and tracking system, centered within the Treasury Department of the MOF. AFMIS is based on Free Balance software. The General Ledger Module of the system is currently in place within the MOF, ministries, and provincial mustofiyats. The system has been expanded to include electronic payroll processing; and an asset management module is also being added.

The DFID SAB Project, in addition to its component dealing with revenue, has a large number of strategically placed advisors within the MOF. In addition to its' 2 advisors placed in the office of the Deputy Minister, it has an advisor permanently in the Fiscal Policy Department, and advisors co-located with the Budget Execution Director, the Sectors Manager, the Provincial Budgets Manager, the Budget Integration and Reform Manager, the Aid Management Office, one with the Director General of the Budget, 2 in the Budget Policy Department, one with the IT Department, and a Communications/Public Relations advisor. In addition to these expatriate positions, they pay 15 staff members who perform duties for the MOF in the budget departments. They also operate a Translation Team that serves the departments under the Director General of the Budget. Their positioning gives them access at all levels, and a significant presence within the 120 staff members of those departments. While they have no significant provincial presence in budgeting, their efforts in the various budget departments often overlap with those of the EGGI team.

AUSAID will be starting a project in support of budgeting within a few months. It will deploy three Afghan advisors in each of four ministries (Agriculture, Education, Health, and Public Works) as well as three expatriate advisors in the budget departments – two within the budget Execution Department, with the third's location to be determined. Given the proposed future assignments of EGGI advisors to the 14 ministries (which includes these 4) and the placement of their central budget advisor in the Budget Execution Department, it is likely that there will be some degree of overlap.

The UNDP Making Budgets Work (MBW) project is the largest source of technical assistance to the MOF, and is aggressive in providing that assistance. The project pays “60 to 70” local staff members of the departments, including all five of the members of the Fiscal Policy Department and most of the management staff. They are thus uniquely positioned to influence the actions of the Director General's and the Deputy Minister's reporting departments, as they alone provide salaries to over 50% (60-70 out of 120) of their staff members. Senior advisors are also strategically placed throughout the departments, with their recent mid-term assessment identifying them, and the staff they pay as “the backbone of the Ministry of Finance”. Five international and 13 CCN advisors are present in the Office of the Minister, the Fiscal Policy Department, the Offices of the Director General of the Budget and the Deputy Minister, and in all the departments that report to the Director General; while UNDP will be deploying approximately 28-30 advisors into the 14 line ministries that EGGI has also been requested to assist in budget execution. This positioning of UNDP employees, including those whose salaries they pay, gives them unparalleled access to the MOF and great influence over its activities.

This work stream accomplished its major work plan goals, delivering quality operational assistance to the line ministries and building their capacity to participate in program budgeting. However, the program did not succeed in establishing a continuing presence in and influence upon the internal policy dialogue on

budget planning/allocation within the MOF. This has in turn hampered the impact of the budget-related work streams of the EGGI program in improving the efficiency and transparency characterizing budgetary allocation processes in Afghanistan. The work stream is thus lacking adequate emphasis on changing overall budget policies to increase allocative efficiencies and enhancing the ability of the Government to make sound fiscal decisions through a thorough formal and understanding of its priorities. As a single example, no aspect of this work stream is directed toward improving the prioritization phase of the budget process.

Performance of the EGGI Program in this work stream has been excellent at the operational level, but not as impressive at the budget policy level with the MOF. Aid recipients generally appear to understand the program budget administrative development process, and to be capable of developing budgetary templates in manner consistent with program budgeting guidance. The ability of the GIROA to implement program budgeting at its current level is in large part due to the efforts of EGGI. However, the current level of implementation is not sufficient to warrant classification of the GIROA system as compliant with international best practice; since GIROA does not appropriate by program and the current system of budget allocation is in essence being made on grounds other than those reflecting program budgeting principles. EGGI's contribution has thus made implementation possible in a technical sense at the operational level, but has had little if any impact on the broader questions of systemic implementation.

In direct response to the questions posed in the evaluation SOW: ministries generally prepared their budget submissions independently: know how to fill out and use procurement plans, financial plans, and performance reports; and submitted their budget documents on time. Some direct assistance from EGGI has been necessary to prepare the PFP and performance reports for all but the most advanced ministries, and most of the 38 budget units worked with were directly assisted by embedded EGGI advisors in the preparation of their budget hearing testimony and presentations. There is a distinct gradation between ministries based upon how long they have been receiving technical assistance, with those who have received it for the longest time doing more of the work independently than those who have had advisory services for less time. At this point the majority of the 38 budget units would likely be able to carry out future rounds of basic budget development/planning & reporting independently; while those who have received only one round of assistance (about 1/3rd of the units) will require significant additional support.

Core recommendation: There are a number of ways in which this phase of assistance might be geared towards a successful conclusion. After participation in additional budget cycles, all line ministries should be ready to prepare their budget documentation and presentations on their own; and the project could/should convince the MOF to create a mobile team to assist those ministries and other budget units who experience difficulty completing portions of the budget development and execution processes. For future assistance, the comments above clearly indicate that there are a number of major fiscal issues to be addressed through focused policy-level dialogue in order to ensure that the GIROA receives the full benefits associated with a strong commitment to program budgeting; including enhanced allocative efficiency, effective budgetary prioritization, and improved fiscal policy-making capacity. The EGGI Program should take further steps to ensure it develops an effective capability to influence budget policy dialogue in key areas cited above.

PROVINCIAL BUDGETING REFORM

Introduction, Background and Methodology

A primary consideration for any analysis of provincial budgeting in Afghanistan is that provinces have no corporate fiscal identity under the laws and constitution. All operating units at the provincial level are

subdivisions of central government bodies, including the Offices of the Governors, which are officially subdivisions of the Independent Directorate for Local Government (IDLG). Such subdivisions are known as “directorates” in reference to the primary titles of their heads. The contours of the intergovernmental legal framework thus serve to underscore the severely limited degree of fiscal autonomy which is granted in practice to subsidiary levels of government in Afghanistan.

However, even though there is no legislated decentralization, there does exist some level of de-concentration of functions, although there is no legally or procedurally defined method for the allocation of resources in support of such de-concentration. The Ministry of Education is reportedly testing an allocation mechanism for the 1392 (2013) budget development process, but details were not available during the EGGI evaluation process. The lack of decentralized decision-making authority is further exacerbated by a discernible tendency within the central ministries to approach the recurrent and development budgets separately in their budgetary relations with their provincial directorates. Provincial, district, and community authorities and development councils often perceive expenditures on or allocations for development projects as quite separate from those contained in the recurrent budgets. This tendency may be reinforced by donor off-budget project expenditures and because recurrent budget funds are more tightly controlled, less are available, and those funds that are available are much harder to access to support local priorities through the budget system.

However, there is some limited potential for devolution of resources to match de-concentrated competencies through the ministries. For a fully articulated program budget system to both operate efficiently and effectively and to accurately reflect the costs of projects and operations (which are in turn important for accurate budgets and budget execution fulfillment) the real and projected costs for recurrent and development expenditures should be generated at the lowest practical level that delivers services to the population and by whom most of the benefits associated with those services are received. In support of that position, and to enhance the capacity of provincial directorates to participate in the program budgeting process, USAID and the EGGI Program agreed to support a provincial budgeting pilot for five directorates (Governors' offices, Education, Agriculture, Public Health, and Regional Reconstruction and Development/MRRD) in all 34 provinces. Services and technical assistance in support of this initiative were delivered in cooperation and coordination with the MOF and the UNDP Making Budgets Work project. These pilots were concentrated upon budget development for limited development budget funds of 500,000 USD per directorate, projects were to be approved by the Provincial Development Councils (PDC), and had to meet priority standards from the ANDS.

The primary budget processes used at the central level were replicated for this pilot program. Directorates prepared a BC-1 form and submitted it to their central line ministry, Ministry of Economy, and Ministry of Finance. The priorities and projects were reviewed for congruence with the ANDS and the plans of the ministries, and to ensure projected costs were reasonable. BC-2 forms were then submitted for the detailed costing of the projects, and allocations for the submissions developed were included as a line item in the 1391 budget as submitted to Parliament and subsequently appropriated.

Unfortunately, a series of assumptions led all parties to believe that funding would be available for the projects proposed, even after they were inserted into the 1391 Budget Decree (Appropriations Bill) as an unfunded line item. By way of clarification, the funding proposals for the IDLG - which were to be provided by the Governors' Offices of each province - were collectively disallowed as failing to meet the core project eligibility requirements of the pilot program. As for the remaining 68 Million USD in project funding for the other 4 pilot ministries; this unfortunately was not in the end made available through either donor or GIROA resources. The prospective lack of funding availability was discussed with USAID in October, and discussions continued within the donor community and with GIROA until budget passage by

the Parliament in April. MOF continued to attempt to negotiate funding from one or more of the potential donor sources, with an emphasis on programs funded through the Afghanistan Reconstruction Trust Fund (ARTF) managed by the World Bank. The MOF, with UNDP assistance, is still in negotiations to attempt to secure ARTF funding for these projects, and at this point it appears that ARTF funding will in fact be made available for the education projects originally included in the approved 1391 budget. The Provincial Budget Unit of the MOF has indicated that their intention would be to make all un-funded projects part of the 1392 budget if/as funding becomes available.

In addition, during the interviews with provincial officials held by the evaluation team it was found that there had been an apparent breakdown in communications after the passage of the 1391 budget, with both provinces' directorates unaware that no funding was available. In both cases the directors had interpreted the fact that the funding had not been made available to implement the projects as due to some error on their parts during the process. This highlighted another fact of central-provincial relations, that communications are at best inconsistent, and at worst do not occur, on fiscal matters.

The applicable contract provisions governing this work stream fall under main activity **2, Strengthening Public Financial Management**, and more specifically in **Planned Results 5** (“Afghanistan's budget reform plan implemented through establishment of program budgeting *and provincial budgeting* (emphasis added), and improved budget management, planning, procurement, and execution.”) **and 6** (“ANDS implementation is well-coordinated,...resulting in increased economic growth. Budget expenditures are programmed and executed effectively at all levels of government,...Monitoring systems are in place to ensure that key social programs are implemented...”).

The EGGI Year 3 Work Plan reflected these requirements in **work stream 4, Provincial Budgeting Reform**. The three planned key activities for Year 3 are all to assist MOF to expand the provincial budgeting pilot to 10 line ministries and their provincial directorates, but the initial assistance was to the five mentioned ministries and directorates. In addition, the addition of 25 personnel to work on budgeting at the provincial level is underway, and the third activity was to include training of international counterparts working in the provinces.

In addition to provincial budget questions directed to four of the five central budget units involved (Education, IDLG, Public Health, and Agriculture) during discussions with them pursuant to the examination of program budgeting, the evaluation team traveled to Nangarhar and Herat provinces. Focus groups were held with PDC members and the Directors involved, while individual meetings were held with the Governor of Herat Province and the Deputy Governor and Governor's Chief of Staff in Nangarhar. Meetings in their Mustofiyats included individual meetings with the Mustofi and with EGGI budget staff.

Conformance to Economic Development Strategies

The USAID Economic Growth Office's objectives are under amendment and review. However, assistance to the GIROA includes ensuring that core public financial management systems, including budgeting, are brought into compliance with international good-to-best practice. As effective program budgeting, including efficient budget execution and performance indicators, represent state of the art goals in the fiscal policy area, this assistance is generally compliant with USAID Mission and EG Office strategy/objectives. Assistance in provincial budgeting delivered by EGGI is specifically related to the GIROA PFM Road Map reform objectives **1.03, Program Budgeting, 2.01 Provincial Budgeting** (given the linkages between central units' provincial directorates and their budgets), **2.02, Procurement, 2.03**

Performance Monitoring, and 3.01 Effective Communication. The assistance delivered at the operational level during the pilot project is of material assistance in ensuring that these objectives are met.

Assistance Delivery and Results

The EGGI Program began Year Three with a single international advisor and a CCN Deputy supervising the activities of the 8 provincial budget advisors. After an additional advisor was brought on board in late January to work with the central level on program budgeting, the original advisor (who had been also supervising the program budget work) was free to work with the provincial budget advisory team.

A symposium for almost 500 provincial officials with duties related to the pilot was held late in Year 2 of the EGGI Program, followed by two rounds of three-day training sessions given in the regions for each of the required budget forms, both the BC-1 and the BC-2. All activities were financed by the UNDP MBW project, sponsored and introduced by the MOF, and trainings were delivered by the EGGI provincial budgeting staff and the international budget advisor. Following the almost 3 months of sessions, the 8 provincial budget employees, with back-up from the international advisor in Kabul and her Deputy, provided mentoring, technical assistance, and support to their assigned provinces.

With the assistance provided by the EGGI Provincial Budgeting Reform Team, 87% of BC-1 submissions were received in a timely manner. The EGGI provincial advisors provided very limited direct assistance in the preparation of the BC-1 forms. Directorates then began to prepare the BC-2 (detailed costing) forms, but received a great deal of help in their completion from EGGI personnel due to the extremely limited time frame available (just over one week). 98% (all but 2 from 170) of the BC-2 forms were received on time, and they were judged to be highly satisfactory by the MOF's Provincial Budgeting Department.

The submission of projects on-time, within budget, and with approvals from provincial development authorities is a clear indication of the positive results from the operational and administrative process portion of this work stream. While only funds for education projects have so far been made available, the submissions from the pilot directorates in all provinces were correctly and expeditiously prepared, and the evaluation team focus groups and discussions with directors or their deputies clearly indicated familiarity with the process and the rationales behind it. A good beginning has thus been made in building the capacity of the provincial directorates in executing the operational requirements of the budget development process. However the institutional momentum thereby established could be compromised or made additionally fragile by the potential lack of funding at the end of the process; as well as by the lack of substantive adoption of fully articulated program budgeting throughout the GIROA budget system. Although 17 Million USD in funding has been made available through the Ministry of Education and the ARTF for education projects, negotiations are ongoing and outcomes remain uncertain for funding to be used in health, rural development, and agriculture.

The primarily procedural and process-related skills imparted by the training processes will be sustainable if and only if these pilot provincial budget development processes continue to be implemented. Generally, participation in only one budget cycle of a budget reform process is not considered to be sufficient to ensure the sustainability of skills transferred.

The provision of targeted advisory support services in this case, involving the execution of a complex training program in a challenging environment, was extremely difficult. Over 500 individuals were trained in the methods used in Afghanistan's program budgeting system within a three month period, primarily due to the extraordinary efforts of the EGGI team. That this has both empowered GIROA and built additional

capacity is evidenced by the fact that the MOF Provincial Budgeting Department has expressed interest in expanding the program for 1392 to an additional 5 directorates per province.

However, an additional and important note is that, universally, the provincial administrators clearly indicated that lack of robust funding and time-effective implementation of projects identified through this pilot program will reduce their legitimacy; and have a negative effect on their relationships with their constituents and other provincial and sub-provincial organizations. In the estimation of the evaluation team, these are valid comments, as were the requests for greater integration of funding and levels of provincial authority and responsibility for de-concentrated powers.

Gender

In relation to gender-opportunity issues, it appears that while some movement toward introducing gender sensitive elements, programs, or projects into budgetary programs is gaining momentum, this does not appear to be a specific or tangible focus of the EGGI team. This failure to include appropriate proactive actions to encourage gender sensitive budgeting misses the opportunity provided by the close relationship between EGGI staff and their partner provincial budget sub-units. A results-based effort should be added to the remainder of Year 3 and any out years for the Project, whereby the EGGI team can encourage the inclusion of gender-specific or sensitive actions and programs in line directorates' budgets. Numerous examples of such programs or approaches are available, and could be accessed for specific ideas, then delivered by embedded advisory personnel. It is even possible that, given the differences between provincial and central ministry staffs, these innovations could be better implemented through the less restrictive mechanisms available to some provincial budget departments.

Conclusions and Recommendations

In this instance, the cooperation and coordination between the EGGI Program and the UNDP MBW Project appears to have been substantial and relatively cordial, as does the level of cooperation and coordination with the US Treasury advisor embedded in the MOF's Provincial Budgeting Department. No donor coordination flaws of significance were mentioned in regard to this work stream.

The assistance offered under this work stream was at the operational level, and was successful in preparing the provincial directorates to participate in the budget development process, as evidenced by the timing and nature of the submissions and the retained knowledge of provincial level staff. However, the nature of the system, with little formal de-concentration of funding, could lead to deterioration of those skills and the received knowledge over time in the absence of annual reinforcement. In addition, the contemplated expansion of services to an additional 170 provincial directorates as well as the difficulty in providing mentoring services to those directorates already served underscores that the level of EGGI effort and resources should be increased, perhaps to a higher level than the contemplated expansion by the envisaged addition of 25 local consultants. Discussions with the MOF and with provincial officials indicate that assistance should be predicated upon the availability or guarantee of funding for any future pilot projects prior to project start. EGGI staff should also more effectively reinforce communications channels between the center and the provinces.

EGGI efforts in provincial budgeting reforms at the operational level were impactful, yielding significant results for this pilot program in process compliance, capacity-building, and increased familiarity with the processes and theories of program budgeting as applied to the development of capital budgets in Afghanistan. They yielded potentially sustainable improvements in both the budget development process

capacities of provincial-level officials and in the ability of central budget units to cost their programs correctly, but these may prove fragile should funding still not be available for non-education projects.

However, again the EGGI team exhibited a lack of focus on impacting relevant policy processes/decisions within the MOF. An EGGI ability to participate in and to initiate policy level discussions, for instance, might have led to earlier identification and (perhaps) resolution of the funding problem; as opposed to focusing on it in late October, as the process was drawing to a close.

In direct response to the questions posed in the evaluation SOW: EGGI technical assistance and advisory services were available and used by many budget units. At the same time provincial directorates generally prepared their budget submissions independently, submitted the BC-1 and BC-2 forms correctly and on time, conducted consultations within the Provincial Development Councils, and understood their roles in budget development. However, EGGI staff did provide direct assistance in filling out most BC-2 forms due to time limitations; since no projects have been funded, the directorates cannot show that they understand their roles in execution and monitoring other than in a hypothetical sense; and consultations were not as inclusive as would be optimal. The direct EGGI assistance was necessary, as advisory services will continue to be until the processes are fully internalized at the provincial level. This, in turn, will be dependent upon further pilot projects being developed and submitted in future budget years.

Core recommendation: Following up these successes through the provision of assistance in a further budget cycle or cycles should serve to adequately reinforce the processes and knowledge gained, particularly if mechanisms are adopted to continue that reinforcement in a sustainable manner linked to the operations of both line ministries and the MOF. To enhance sustainability, mustofiyats should be trained to continue support to these pilot processes, and should be supported in advisory service delivery by the central MOF.

In addition, the opportunity presented to link off-budget projects with the budget and the pilot projects and to expand the integration of these with on-budget projects and programs should be seized, and technical assistance offered in this regard. Minimally, the prioritization of such off-budget projects might be decided in accordance with the budgetary process' universal format and an enhanced level of analytical rigor should be encouraged through technical assistance. Potentially, in the case of off-budget donations, prioritization decisions might even be made directly in the provinces, thus further enhancing their capabilities and supporting the de-concentration of competencies. Given the magnitude of these off-budget programmatic expenditures in relation to on-budget programs, working more proactively towards this type of de-facto integration in the budget planning process at the provincial level will increase the relevance of this process to local constituencies; as well as impacting in the most compelling and efficient manner possible on actual fiscal resource allocations. It is strongly recommended in this regard that ISAF and provincial-level donor assistance entities (PRT, etc.) be more fully integrated into future provincial level budget efforts.

PROVINCIAL TAX ADMINISTRATION

Introduction, Background and Methodology

The tax administration system of Afghanistan has recently undergone significant reforms, with a new tax law being passed in 2009. Fundamentally, the system of tax reporting and revenue collection was changed from an older model of declarations and direct enforcement actions to a modernized self-assessment system, where the taxpayer both declares his or her income, calculates, and pays the taxes owed. Such systems require taxpayer education, enhancements to customer service, and effective, transparent and

efficient audit and inspection/ enforcement activities to operate effectively and efficiently. A fully operational system should increase government revenues and the perceived legitimacy of the system of taxation, and, by extension, the legitimacy of government institutions. While EGGI has been involved in the provision of technical assistance in support of these changes since 2009, in the third year contract its services were further defined. It should be noted that the vast majority of work on tax policy and administration has been assigned to DFID projects for some time, with the USAID EGGI Program's efforts primarily targeted at the field office interface level.

To assist in the implementation of the new tax law and enhance government revenue collections, a system of Small, Medium, and Large Taxpayer Offices were established. EGGI is tasked with working in four pilot provinces. These offices are located in the following provincial capitals: Mazar-i-Sharif in Balkh Province, Herat in Herat province, Jalalabad in Nangarhar Province, and Kandahar in the province of the same name. The 34 Small Taxpayer Offices (STO) are directed toward interfacing with the vast majority of taxpayers, but have performed feebly from a revenue generation standpoint, and little progress has been made in converting their operations to match the self-assessment tax system. Large Taxpayer Offices (LTO) are directed toward the largest taxpayers with more than 75 Million Afs in turnover annually (308 throughout Afghanistan, although some international experts believe that there may be more firms that should qualify, perhaps up to 1500). Modernization of the 3 active LTO has moved at a slower pace than the Medium Taxpayer Offices (MTO). In this regard EGGI has reported that the Director General of the ARD directed that LTO employees below the managerial level were not to be trained by the combined EGGI and ASI efforts. According to the EGGI Team, donors were aware of this prohibition, which has recently been removed. The 5 Medium Taxpayer Offices (MTO), which serve taxpayers with between 15 and 75 Million Afs in annual turnover, are thus the most advanced offices. Each of the 4 EGGI-advised pilot MTOs have two advisors from the DFID SAB project and one from the USAID EGGI Program. The LTO and MTO in Kabul are advised by ASI, and are generally not included in this discussion.

Taxpayer offices in the provinces are supervised by their directors, who in turn are supervised by the Head (Mustofi) of the provincial Mustofiyat; the provincial finance office. The Mustofiyat, like other ministerial provincial directorates, has a dual reporting relationship to the provincial governor and its ministry – in this case the MOF. The resulting relationship can serve to reinforce reforms or, given a lack of cooperation from the Mustofi, can hold back progress in reform implementation. It was generally agreed that no tax office in Kandahar is functioning properly, and even its' MTO has had difficulty operating in what amounts to a quite hostile environment. The Kandahar MTO is excluded from the following discussions due to its inability to implement reforms despite capacity-building and coaching as well as its' lack of staff, with only 15 positions filled from the 31 authorized.

The EGGI Program is tasked to improve tax administration and revenue collection in the MOF Revenue Department (ARD)'s “...Small, Medium and Large Taxpayer Offices...in accordance with international best practices...” under the terms of the contract between USAID and Deloitte Consulting LLP. The focus of this work is further stated to be “...improved taxpayer services an public education, transparency, IT systems, and draft laws, regulations and procedures...” in support of bringing tax policy and implementation into compliance with leading international practice in **Planned Result 4**.

The Year 3 EGGI Work Plan only outlines training support to ongoing operations in the MTO and LTO in the three active pilot offices: Herat, Mazar, and Jalalabad, and the actions contemplated were limited to provision of on-the-job and “train the trainer” capacity-building activities. This reduced the potential for sustainable improvements in these offices' operations by neither supporting tax policy changes nor the provision of formal written manuals, policies, and procedures. Although additional engagement with the Kandahar offices' staff in capacity-building and inclusion of LTO staff in all future capacity-building

trainings has now been approved, it will take some time for the added assistance to show concrete results. These effects may materially enhance revenue collections, particularly in the LTO, as their recent performance has fallen short of targets. In this regard of the 19.2 Billion Afs slated for collection across all LTOs in 1390, approx. 17 billion were collected, a shortfall of more than 10%.

The EGGI staff interpreted the tasks outlined to exclude the development of laws, regulations, or manuals by the Program. This responsibility was effectively left to the DFID SAB project. This division of labor makes the sustainability of any successes in the operations of MTO or LTO questionable, as it is difficult to continue to replicate proper procedures without written guidance. To put this more strongly, it is virtually impossible to have a lasting and sustainable impact upon procedures and non-regulatory policies without the provision of a written corpus in the form of manuals including both ARD policies and procedures. While the minimal written guidelines so far available were developed and delivered by the EGGI Team, they are insufficient to fulfill the functional requirements met by manuals.

To evaluate the Program's performance, a series of interviews were conducted at the central and local levels, with additional statistical evidence collected from which to adjudge the performance of the MTO in the provinces. After discussions with the Director General of the ARD and EGGI tax administration advisory personnel, provincial visits were carried out in Herat and Jalalabad. The Mustofi and Directors of the MTO were interviewed in each, while the subject of the MTO was discussed with the Governor of Herat and the Governor's Chief of Staff in Nangarhar.

Conformance to Economic Development Strategies

The GIROA PFM Road Map states that “sustainable increases in and management of domestic revenue collection” falls outside its scope, as well as any other issue related to revenues. However, increases in revenues are specifically stated as to be covered in the Government's overall plans for “better financial management”. Thus, while this assistance is not specifically covered by the Road Map, its importance is implicitly recognized therein. Tax administration reforms to increase revenue collections clearly would be in support of the stated goals of the government's overall fiscal plans.

Assistance Delivery and Results

EGGI deploys a single expatriate advisor, a central level CCN advisor, and four provincial advisors in support of this work stream. During the first half of program Year 3 they have delivered training in management and field compliance techniques to MTO and LTO staff of Herat, Nangarhar, Mazar, and Kandahar provinces. Permanent advisory staff in those provinces has also provided advice and on-the-job training to the MTO on an ongoing basis.

In addition, the EGGI tax team has provided advisory services to the Afghanistan Revenue Department and its Director General on issues of tax administration, particularly as directed to MTO and LTO operations. Recently, the DG of ARD requested EGGI to provide technical assistance to assist the LTO to improve their operations and administration. The EGGI Team states that they will need an increased allocation of advisory and financial resources in order to expand direct services to the LTO at a sufficient level to foster progress.

The results obtained from the assistance to date, which included assistance provided in years 1 and 2 of this contract, includes notable improvements in the administration of MTOs, and a resulting increase in the collection of revenues from medium-sized taxpayers. The most advanced MTO, Herat, increased its annual revenue collections from 47 Million Afghanis in 1389 to 231 Million in 1390, and is on track to collect at

a faster pace in 1391 (which will be a 9-month fiscal year to allow for the adjustment of year end to 21 December). The Mazar MTO has also radically improved its collections and administration. Notably, there seems to have been little effect from any transfers of taxpayers into these offices from other categories and/or offices. In both of these cases, the taxpayer/customer services units and audit units are fully operational, and the enforcement units are serving customers until Tashkeel positions for the customer service units are granted/filled. These positions are slated for creation during 1391. **In sum, the significant increase in MTO revenue performance for these offices is being driven by improved registration, audit (including enhanced non-filer and stop-filer procedures) and taxpayer outreach activities.**

Specific measurement tools for the functions now being performed by these offices are largely lacking. The offices have interfaced with significant numbers of taxpayers in pursuit of public/taxpayer education, for instance, with Herat recording 3111, the slightly less advanced Mazar 1231, and Jalalabad, which lags, 266. However, no means exists to record and analyze the level and intensity of these contacts. It would appear that the Herat and Mazar MTOs have implemented all of the core functional improvements recommended by the EGGI team except for the operational establishment of the enforcement units, which have been delayed for the reasons discussed above. The efficiency (and in some cases, provision) of taxpayer registration, audits and inspection have all been improved. However, again a lack of performance metrics makes this difficult to evidence. While 121 audits were performed in Herat, and 102 in Mazar during 1390, no detail is reported regarding audit/assessment quality and results. As another example, while the number of returns increased by 644, or almost 18% in Herat, and 636, or almost 18% in Mazar, no tracking mechanisms speak to the specific impacts these have had on revenue performance.

The Jalalabad MTO's collections have also increased substantially, and reached 150% of target in 1390. However, the MTO does not operate primarily in accordance with the principles of tax administration in which they have been trained. While staff are professional, dedicated, and applying some of the new tax administration procedures, according to their Director, they are primarily using visits to taxpayers to collect taxes. Unfortunately, using the older styles of collections in this manner negates many of the guiding principles of the new self-assessment system for taxpayer declarations. There are also questions as to the validity of the reported revenues amounts that remain to be resolved. EGGI staff state that they will either visit the office and train there or, should that prove infeasible for security reasons, they will invite them in to Kabul for further capacity-building.

As referenced above, the Kandahar MTO remains understaffed (15 out of a possible 31 positions have been filled), and is not operating in accordance with modernized self-assessment principles in any significant way due to the security situation and related management issues. EGGI staff plan to invite staff of this MTO in to Kabul for further assistance and advisory support. As with the training contemplated for Jalalabad, this is perceived by EGGI and the ARD that this will need to be deferred until the completion of the tax filing season in June. As a result training sessions have been planned for July by EGGI.

The successes of the pilot MTOs in Herat and Mazar in enhancing collections, and the related improvements in their functional structure and core tax administration procedures, represent a significant step forward. Government revenues are increasing, and relations with taxpayers should be improved by the climate of customer service fostered in the offices. However, as seen in the case of Jalalabad, the commitment of any office to implement reforms may be compromised by the action or inaction of its' Director in reorganizing the office and its' operations. In addition, as the systems being piloted substantially reduce contacts between tax officers and taxpayers, the potential for informal payments is

decreased. In places where such payments are considered important to various institutional actors, these reforms may not be welcomed, thus compromising sustainability.

Sustainability concerns are further reflected in the dearth of formal procedural manuals. The DFID project has produced a set of tax regulations - which interpret the law and give examples - and a draft enforcement manual. A taxpayer services manual is reportedly also in draft, and both this manual and the one on enforcement are to be rolled out in the summer of 2012. However notable for their ongoing absence are procedural manuals addressing critical areas such as taxpayer registration, returns processing, audit, and inspections. Without such structured documentation it is difficult to conceive how a formal and repeatable procedural interface for offices with their assigned taxpayers can be effectively fostered/sustained.

The major challenges to establishing these pilot MTOs were substantial. Not only did they have to be organized, staff trained, and on-site mentoring by qualified individuals provided, but the direct advisory assistance from expatriate advisors in the field had to be withdrawn for security reasons, thus reducing overall effectiveness. Extensive reforms in the system of declaring and processing taxes completely changed the system of tax administration. The EGGI team has dealt with these challenges effectively at the operational level, and the results are concrete and impressive in Herat and Mazar. However, the lack of substantive engagement in the preparation and delivery of procedural manuals or of strategic overarching advice on tax administration policy limits the EGGI team's capacity to promote effective sustainability of these efforts. The lack of impact of the EGGI provincial tax administration reform staff on policy decisions and upon the preparation of proper procedural manuals reflects, in part, inadequate program efforts to bring those concerns forward and secure support for rectifying deficiencies from senior ARD officials. The lack of detailed performance metrics also compromises the ability of GIROA to make, or EGGI to recommend, specific improvements targeted to actual operations.

Gender

While the provision of technical assistance at the operational level of tax administration and on the organization and function of the MTO and LTO is not directly concerned with gender issues, it is notable that the Herat office has a staff that is roughly 20% female, thus indicating partial fulfillment of the commitment of GIROA to diversify its employee rosters.

Conclusions and Recommendations

It is apparent that, although the inter-project interfaces between the ASI project and EGGI is cordial, that the EGGI project occupies a relatively subordinate position in the provision of advisory services to the Revenue Department. All tax policy work, as well as the development and installation of the tax IT system (SIGTAS), advice on the tax law, and the development and delivery of manuals to govern tax administration appear to be in ASI hands. EGGI, on the other hand, is performing the tax administration operational improvement assistance in the front line offices with direct taxpayer linkages; and the collections results in those offices appear to indicate that the initial provision of operational advisory services has been highly effective. In fact it appears that ASI CCN tax administration consultants in the MTO and LTO are being trained by EGGI staff.

It should be noted that EGGI's ongoing deferrals to ASI on topics not directly related to training/service delivery activities is limiting the contract's expected results. It is true that EGGI is severely over matched by ASI in terms of the quantity of advisors available (not only do ASI deploy 10 expatriate advisors in Kabul to EGGI's 1, but they also deploy 2 local advisors for each province to EGGI's 1), but as noted above the lack of EGGI focus on tax policy and administration framework issues has at times hampered

the sustainable attainment of core project aims. This tendency towards deference and lack of policy-level focus, as in other areas of the EGGI Program, needs to be effectively addressed if the program is to maximize its sustainable reform impact in future.

Specifically, the questions posed in the SOW for this evaluation may be answered as follows: The MTO Directors and LTO Directors have been trained in basic management techniques, with mixed results. In vanguard offices (Herat and Mazar MTOs), improved tax administration management techniques are being proactively applied. In Jalalabad the MTO Director understands the techniques, but has in essence chosen not to apply them; while the LTO Directors in Herat, Mazar and Jalalabad, and the MTO Director in Kandahar are also failing to apply them in meaningful ways. In general, staff seems to be professional, and dedicated, with acceptable knowledge of new techniques. The taxpayer service units are operating with the correct functionality in the 3 major pilot MTOs, but not in others. Audit units in Herat and Mazar are functional, but do not appear to be so in other offices. Due to staffing issues, no enforcement units are in full operation. Collections results for these offices are reported (and are included in the appendices). However the lack of detailed performance metrics for office operations makes it difficult to establish meaningful performance efficiency measures for MTO and LTO activities.

Core recommendation: An optimal exit strategy would entail assisting all four MTOs and LTOs to develop/achieve a robust administrative service provision structure based upon a clear functional allocation of responsibilities; and establishing a transparent set of performance metrics which could be used to assess progress towards core tax efficiency and transparency goals. This assistance could be institutionalized through the creation of sufficient capacity in the ARD to continue to open and train new offices in those provinces not yet served. A viable option in this regard would be the creation of a department or office charged with these duties, whether solely as a part of the ARD or as a subdivision of a larger MOF Public Finance Institute.

It is important to emphasize that, to adequately ensure sustainability and enhance revenue generation impact, standardized procedural manuals must be produced by a responsible body, and systems to assist with detailed improvements in management should be created. Optimally, these should both be developed and delivered in cooperation and coordination with ARD and any other interested donors in a collaborative process led by ARD, including operationally experienced ARD provincial staff as a part of the working group charged with their production; and with direct EGGI staff advice. It is clearly stated in the contract that the responsibility of the EGGI team is to ensure that the necessary systems and materials are in place, and assisting the ARD in facilitating the sustainable implementation of best practice tax administration standards.

REVENUE RECONCILIATION DATABASE WEB-BASED SYSTEM

Introduction, Background and Methodology

In 2009, the ARD of the MOF identified a need for a system to report revenues from governmental units collecting them and to reconcile them with deposits. This functionality is not slated to be fully included in the SIGTAS tax MIS system in continuing development by DFID's SAB Project, and was clearly perceived as a need by the Director General. The Revenue Reconciliation Database (RRD) system was duly developed, with the submissions from the reporting units, including GIROA entities at the provincial and national levels, e-mailed to the ARD, where they are manually entered into a series of analytical spreadsheet tools. The system was installed throughout Afghanistan at the Mustofiyat and Ministry level and government employees were trained in its use, but it has since lost functionality, and some designed elements were not delivered due to EGGI Project "right sizing" in early 2011.

The AFMIS system has not yet operationalized its revenue recording/reporting module (GRM), nor has this been included in the 30 month plan for the next World Bank project to support Treasury. Revenues deposited in Banks are recorded electronically into the RRD system and then entered manually into AFMIS by Treasury staff on a daily basis. However collecting unit data (eg. revenue records from the Mustafiyats at the provincial level, and from relevant line ministries/agencies at the national level) are not universally entered. Moreover some line ministries actually submit their information direct to Treasury on spreadsheets. Thus the potential continues to exist for significant inconsistencies/errors in revenue reconciliation processes, as the result of the lack of uniformity in data sourcing procedures. In addition it should be noted that while AFMIS can produce data that could be used to reconcile some revenues, it does not have any real time functionality and error avoidance is low due to the requirements to enter data manually.

The SIGTAS system is not designed to ever capture non-tax revenues, and its general functionality for tax revenues as a whole is at least 3-5 years away, according to the most recent plans. Within 3 years it is only scheduled to record medium and large taxpayer revenues. SIGTAS may eventually have the ability to send revenue data directly to AFMIS, but this is again in the future, and dependent upon changes to both systems.

As a result neither the SIGTAS nor AFMIS systems are currently capable of meeting the requirements laid out by ARD for the functionality of the revenue reconciliation system; and ARD thus requested that EGGI develop a reconciliation system with the following features:

- ▲ Easy access to data and the ability to use and access data among functions;
- ▲ Data integration at a central (ARD) location;
- ▲ Able to be managed by ARD staff after appropriate training and/or recruitment;
- ▲ Reconciles data on revenues expected and collected with Da Afghanistan Bank;
- ▲ Able to data share with AFMIS;
- ▲ Both fixed and ad hoc reporting capabilities;
- ▲ Both on-line (where possible) and off-line data entry and verification; and
- ▲ ARD/MOF IT Department acts as the data center for the application.

This work stream was initially designed to restore functionality to the original 2009 system, and then to replace it with an on-line real time system that will be more automated (2012 Revenue Reconciliation System - RRS). While it is possible that 2012 RRS system may be eventually superseded in whole or in part by one or more other systems; notably the SIGTAS or Treasury's AFMIS systems if their functions are expanded to include those of the RRS; the 2012 RRS system would meet ARD requirements to allow them to operate the revenue system of Afghanistan while other systems are at least 3 years away from providing the requested functionality for ARD.

This work stream falls under **Planned Result 1** of the contract, "Improved fiscal policy and administration so that non-tax revenues are rationalized, revenue collection is increased to cover the operating budget, the revenue raising and spending authorities of the provincial and local governments are clarified, an analysis capability is established in the MOF,...". In the Year 3 EGGI Work Plan, five activities were planned, from reviewing and documenting the system, to delivering a prototype web-based system, training on the new system, and handing off the system to the ARD. To evaluate this system, interviews with the Director General of ARD and the COP of EGGI were conducted, as well as some discussion with the World Bank's Peter Sisk.

Conformance to Economic Development Strategies

The GIROA PFM Road Map specifically states that “sustainable increases in and management of domestic revenue collection” falls outside its scope, as well as any other issue related to revenues. However, increases in revenues are specifically stated as to be covered in the Government's overall plans for “better financial management”. Thus, while this assistance is not specifically covered by the Road Map, its importance is clearly recognized therein. Systems that assist GIROA to manage revenue increases more effectively clearly fall within a desirable category under the PFM Road Map.

The USAID EG Assistance Strategy that is under development will clearly include elements that seek to rationalize and improve PFM processes, making analysis and decision-making more accurate. The RRD serves that purpose for the ARD of the MOF.

Assistance Delivery and Results

An initial assessment of the Revenue Reconciliation Database (RRD) system was performed in late 2011 and early 2012, and presented in April 2012 by the EGGI ICT Advisor. The decline in functionality of the remote system was clearly identified as primarily a matter of procedural and software-related issues. As reporting entity personnel would bring their data to the dedicated machines on portable data storage devices, any computer viruses that were on those storage devices were transferred to those machines. This inevitable buildup of malicious software was hampering the functionality of the system. The recommended solution, including more effective anti-virus protection and disabling the ability of users to connect portable data storage devices, is in the process of implementation. Results to date are that the system's functionality is improving as each remote location is corrected. In addition, some changes to the account structure are now reflected in the repaired system.

The second phase of the work stream will be to create the more sophisticated system requested by ARD (2012 RRS), although there are numerous technical difficulties in so doing. Due to the substantial technical effort involved at a higher level of difficulty and cost than envisioned when this work stream was designed, an IRM has recently been signed with EGGI to begin this work in the very near future. In this second phase, the system will be made more automatic, and data will be able to be modified on line, while system monitoring will be in real time.

The original accomplishment of establishing the RRD and installing it was not sustainable due to the unforeseen “human factor” that led to computer virus propagation through the system. This underscores the fact that training could/should have included guidance on mandatory procedures for ensuring that delivered data was virus-free, including data delivered on portable devices. In addition, sufficient automatic safeguards could/should have been installed in all system equipment.

The repairs to the system should restore its functionality when complete, and the system appears to be sustainable, able to continue to provide accurate and timely information to the ARD, although lacking all requested functionalities. Assuming that no unforeseen technical problems arise, the replacement system should be sustainable in the medium term, although a possibility exists that its' functionality will be replaced by a more integrated Treasury or SIGTAS systems after that period. However, the original request was for a system that would provide temporary functionality, which will be completed should installation of 2012 RRS be approved.

The capacities developed while installing the RRD system and training operators how to use it may be important to future efforts to introduce automated systems across Afghanistan. In the transitional period, the ability of the ARD, through the RRD or follow-on RRS systems, to reconcile its revenues in an accurate and timely manner when the system is functional is an important control mechanism in revenue management and the prevention of waste, fraud, or corruption.

Gender

This work stream is purely technical, and issues of gender are not directly related to its accomplishment.

Conclusions and Recommendations

The RRD system was developed as a simple stand alone IT system by direct request of the ARD and its' Director General. As such, donor coordination has been limited, although considerable discussion has occurred with the DFID SAB Project on the relative designed abilities of the SIGTAS system and the need, or lack thereof, for the RRD. While the original design of the RRD system should as previously indicated have made allowances for potential data corruption, the solutions included in Year 3 to restore its functionality have been carried out in a time and cost-effective manner.

The EGGI Team has been repairing the RRD system as needed. Further expansion of the system, as directed in the recently approved IRM, is scheduled according to EGGI to take approximately 12 months, and would thus presumably need to be included in any Year 4 plan. The EGGI team's analysis of the issues involved indicates that the installation of 2012 RRS is the optimal medium-term solution, and the only one of those proposed that meets all counterpart requirements. If other avenues to accomplish the ARD goals become available, these can then be submitted to the Director General and rationalized technical advice designed and delivered based upon the policy decisions made.

In direct response to the questions posed in the evaluation SOW: As the technological repairs to the RRD system have been installed by EGGI and the ARD (this has been completed in the vast majority of provinces and ministries), organizations have gained the capacity to report through the system. All 34 provinces and all ministry-level organizations are connected to the RRD; 32 of 34 provinces and 15 ministries currently report through the system. Donor cooperation by EGGI personnel has been adequate, and their system provides reconciliation functionality that is not part of the AFMIS and SIGTAS systems, thus representing a highly useful management tool for the ARD. At the same time, the ongoing data sourcing issues referenced earlier have significantly complicated reconciliation processes; and this issue needs to be effectively addressed in order to ensure more time-effective and comprehensive reconciliation results.

Core recommendation: This activity is fundamentally self-limiting, in that it consists of discrete deliverables leading to technically identifiable goals. Once the selected systems have been installed, or functionality secured in some other way, there should be no further need for direct EGGI or USAID involvement in this regard.

WOMEN IN GOVERNMENT INTERNSHIP PROGRAM

Introduction, Background and Methodology

A Women in Government (WIG) internship program was developed by EGGI and began roll-out during Year 1, but it was significantly expanded in Year 3. This program identifies new graduates from universities, trains them in basic management and work techniques, temporarily equips them with a computer, and places them in 6 month internships in government entities, although more recent GIROA requests may reduce the time period to 4 months, at least in some entities. They are paid a small amount by EGGI, and regular supervisory and follow-up meetings are held for program participants. This combination of specific government employment training and general employment readiness training, when combined with the basic intellectual readiness of the university graduates, has proven effective in securing participants' employment after the internship term.

The WIG program was created in direct response to the “Cross-cutting Issues and Aid Effectiveness” section of the contract, as well as the language contained in Contract Modification 15, which is specifically oriented toward woman’s issues, and is entitled **H.24 Gender Requirements**. The Year 3 Work Plan also included 11 activities under this work stream, including at least 3 “rounds” of intern placements, workshops, media relations, mentoring, etc.

In addition to thorough discussions with the EGGI WIG team and separate discussions with the COP, the evaluation team met with the Agriculture Department Chair and Assistant Chair of Kabul University, which is the most involved school in the program. An additional meeting was held with the Human Resources Director of the Ministry of Finance, which has been one of the most enthusiastic government organizations participating, with 39 current interns and a request for 100 additional interns. Additional relevant discussions were held with Deputy Minister Mastoor of the Ministry of Finance and with the Cartography and Geodesy Agency of Afghanistan.

Conformance to Economic Development Strategies

The rationale for this assistance, while not directly related to the core of the previous USG Economic Growth assistance strategy or the PFM Road Map of the Government of Afghanistan, is directly related to USAID support for cross-cutting gender issues as well as implementation of the GIROA decree on integration of women into government employment. The program's goals of finding permanent employment for women in government or private sector employment is directly in support of USAID and GIROA policy concerns.

Assistance Delivery and Results

The EGGI WIG Team has successfully engaged with a number of universities, including signing a letter of agreement with Kabul University to provide internship candidates. In addition, universities in Herat and Balkh Provinces have indicated a willingness to participate, and 20 interns each have already been requested in Herat, Balkh, and Kabul Provinces.

EGGI advisors recruit and interview candidates, most of whom have been referred by their university. Candidates are then given employment readiness training, and generally equipped with a computer. They are then placed in a government entity, usually after an interview process. Government entities are required to sign “Statements of Plan Collaboration” that clearly specify the roles and responsibilities of all parties in these arrangements.

Interns are carefully monitored and supervised by the EGGI team in terms of their participation, while their work and specific on-the-job training is provided by the participating ministry or other GIROA entity. Not only are interns given clear instructions on reporting and communications with the EGGI team, but a

weekly meeting and workshop (currently on Thursdays) is held for additional capacity-building, mutual support, and program cohesion.

WIG enrolled 58 interns during CY 2009-2011, of whom 57 completed the program by May 2012. Of these 57, 1 is no longer interested in the program due to marriage, 4 have left Afghanistan, 20 are looking for work, and 32 have been placed in permanent employment, for a placement rate of 56.1%. The program does expect more placements in the near future from these groups of interns, especially those who just completed the program in May. The 56.1% employed rate for the first 3 years of operations should at this point be considered a barely adequate permanent job placement rate, given the pre-placement based nature of the program.

With regard to total enrollments in CY 2012, a total of 105 interns have been enrolled (including 30 who were just enrolled in early June), of whom 97 are still enrolled and 8 have already been placed in permanent employment. As the program continues to expand, USAID may want to consider (1) setting explicit placement rate goals (given the fact that pre-placement agreements are in place for each enrolled trainee); and (2) enhancing monitoring/tracking requirements for purposes of accurately assessing job placement outcomes.

In this regard the fact that the placement rate for the last two 2011 participant groups who completed the program has been quite low (7 of 24, or 29.2%) may be of significant concern. While many possible causes may have effected the placement rate (eg. a less rigorous selection process for trainees, insufficient time for vetting/hiring to be carried out for civil service positions); these should be carefully analyzed to remedy any deficiencies and raise sustainable placement rates. It should be noted that this 29.2% rate contrasts very unfavorably with the 25 of 33 (75.8%) rate experienced by previous trainee groups. The launch of any such program in society and culture that includes traditional patriarchal core values is of course highly complex, as such values may negatively influence participation by individuals and organizations in the program. In addition, the potential for unprofessional treatment and/or organizational isolation of these interns is always present. The combination of direct GIROA support and a substantial and well-designed support and monitoring mechanism for program participants implemented by EGGI seem to have reduced such difficulties to an acceptable level so far. It should also be emphasized that any such program involving potentially hundreds of participants creates a substantial set of administrative and technical challenges, which have been overcome through careful design, hard work, and dedication on the part of the EGGI team.

The fact that interns are being placed in permanent government employment and are filling Tashkeel positions that have remained vacant - in many cases for substantial periods of time – until they became available argues strongly for an increase in GIROA capacities. At the very least there are now additional employees with few administrative preconceptions to overcome, who also possess the educational backgrounds and intellectual abilities needed to enhance GIROA operations. It should also be noted that this program is not necessarily expected to be directly sustainable, but that its' successes seems to be promoting GIROA interest in its expansion and permanent presence.

Gender

As a gender employment equity program, this is the primary EGGI sub-program directly concerned with gender issues. Since it has placed participants in over 10 government agencies it is of material assistance, both to the fulfillment of GIROA policy and to the realization of USG goals involving the entry of women into the economic life of Afghanistan. As long as there remains an enhanced level of actual GIROA political commitment and support for gender equity in employment this program should remain

sustainable. The IARCSC has indicated an interest in carrying it forward, which should be carefully considered. However, it is meaningful to note that the funding stream associated with the program is also needed if any government entity were to implement it. The clear implication is that, without donor funding, the sustainability of the program may be questionable, particularly should there be any change in government policy. The general enthusiasm in support of the program conveyed in meetings with Kabul University, MOF, and Cartography would tend to indicate that the provision of interns, who are often used to fill Tashkeel positions, is seen as a common good and will continue to be supported by government bodies barring significant policy changes.

Conclusions and Recommendations

The WIG sub-program has not yet faced significant need for direct donor coordination. However, one would expect that its' successes will prompt other donor entities to enter into the same or similar endeavors in the future. EGGI and the USAID Mission should examine potential modalities in the event that should occur, prior to any handover of the program to the Government.

The sub-project/program as designed is simple and robust. In general, and especially due to the organic incorporation of safeguards for program participants and monitoring of reports and activities, this program may be considered to be very well designed and implemented. It is also recommended that the potential for a "Steering Committee" incorporating academic, government, and other representatives, with an emphasis on Afghan individuals and organizations be explored in depth.

Program performance in the WIG work stream has been reasonably strong, with a clear record of success in support of both USAID and GIROA goals, proactive engagement with government and educational entities, and significant public exposure. In direct response to the questions posed in the evaluation SOW: EGGI technical assistance and advisory services have resulted in the permanent placement of approximately 56% of participants who have completed the internship program. At the same time the sustainability of the system is open to question, particularly in light of the lack of clear ownership over the program and its objectives by the GIROA.

The primary exit strategy for WIG would be to ensure medium term sustainability to improve the participation of women in the employed workforce. Optimally, this would include a firmer set of pre-placement agreements with both private employers and, above all, with the GIROA; as well as clear post-placement legal protections for program participants. However, as previously noted, the Government does not believe it has sufficient funds to maintain the program. This is arguably correct, given the nature and structure of the recurrent and development budgets, so continued donor funding might be necessary at present to continue program operations. This could indicate that the prospective sustainability of this initiative is lower than would be considered optimal.

Core recommendation: The primary challenge for medium term sustainability is keeping the government invested in the concept and committed to inclusion and placement while ensuring participant and organizational safeguards and effective program administration. A basic model that has worked for similar kinds of programs is linking donors, government, and academic/training/NGO institutions in a supervisory board, while more than one of the participating organizations administers the program. An example of such a negotiated solution might have funding continuing to come from the donor community, which would have seats on the board and provide advisory and monitoring services. The donor representatives could be joined by academic or NGO institutions that, in cooperation with MoWA, provide participant counseling and coordination; while the Civil Service Commission/IARCSC, which has the sole power to approve of hiring and public employment decisions, would handle the administrative

requirements. With representatives of the last two groups forming implementation teams, a vibrant and viable program could be maintained while more permanent funding sources are identified.

In order to validate these successes over time, a simple system of monitoring on an annual basis should be devised, probably based on a short survey of program participants and organizations; while efforts should be made through EGGI to promote the incorporation of this program as a permanent component of the human resource development strategy of the GIROA; and thus within the core human resource development budget.

DONOR COOPERATION, COORDINATION, AND RELATIONS

The extensive discussions in the Program Budgeting section and indications in the Provincial Tax Administration section lead to several conclusions on donor coordination in relation to the EGGI Program in Afghanistan.

Firstly, the EGGI program has seen its greatest successes in building capacities in operational units and through delivering assistance that has allowed administrative and operational processes to function correctly. In tax administration, program budgeting, and provincial budgeting it has developed capacities and process-based knowledge that should be sustainable with further reinforcement. However, an important caveat is that, for any capacities developed in the absence of overarching policy framework guidance and manualized directives which mandate operational and procedural consistency, these capabilities could deteriorate over time. Thus, any capacities improved should have codified manuals and overarching policy guidance provided to foster sustainability. The Revenue Reconciliation Database is also consistently useful to the partners, and its' follow-on Revenue Reconciliation System should be as well. The Women in Government Program holds great promise for the future successes of women in the economy of Afghanistan if it achieves significant support, and thus sustainability, from GIROA partners. Just as importantly in a strategic sense, the patterns of donor competition, rather than cooperation, within the Ministry of Finance and the Afghanistan Revenue Department have Played a significant role in limiting the EGGI Program's capacity to significantly influence sustainability of budget and tax reform progress in key areas (e.g. procedural manuals for core tax administration functional areas in the MTO and LTO). As an example, EGGI's focus and development assistance in budgeting could have included:

- ▲ The application of greater rigor to the processes of project prioritization in the development budget;
- ▲ Integration of development budget and other capital and/or public investment expenditures into a single annual budget framework with recurrent expenditures;
- ▲ De-facto integration of a significant proportion of off-budget expenditures with on-budget GIROA spending;
- ▲ Enhanced rigor in the making of allocation decisions through medium term budget frameworks linked to the ANDS and combined with the annual budget process; and
- ▲ Development and delivery of a system allowing for greater operational unit control over expenditures for deconcentrated functions at the provincial level.

Advisory services by EGGI designed to make the above central focal points for the fiscal and budgetary policies of GIROA would be of material assistance in supporting comprehensive reforms. The lack of a significant EGGI policy-level advisory role or influence in the relationships with the Ministry of Finance may partially be attributed to project and donor interpretations of their roles that included both a "crowding out" of other projects, including EGGI, and an assumption of a central role in the operation of the institution for the UNDP and DFID projects. However, the EGGI Program's limited initiative in attempting to proactively overcome these limitations have clearly diminished its' effectiveness.

Clearly, the fact that approximately 70% of the salaries for budget, fiscal policy, and aid coordination employees are paid by donor organizations, including most management employees, could compromise the sustainability of all central level MOF advances. The potential that individuals paid significantly higher than normal salaries will not choose to remain in positions once funding has been reduced or removed could mean that virtually all the champions of reform would leave the MOF if that occurs. It appears that, historically, as USAID projects were withdrawn from the MOF to concentrate on other aspects of public financial and fiscal management advice, the resulting gaps have been filled by other donor projects; and further, that those projects and their successors are now reluctant to make “space” for EGGI, or indeed for any other donor's projects. However, EGGI again appears to have made very limited attempts to counter the general situation by building upon its' technical support accomplishments to secure access to senior officials in the budget and tax policy areas. This failure to effectively deliver policy-level advisory services, whether due to difficulties with the donor environment, a lack of assertiveness, or limited resources, has limited somewhat the ability of USAID assistance to accomplish major goals set for this program in the EGGI contract. It should be noted that it does not appear that senior fiscal policy advisory services are being effectively provided by other donors in the overarching tax and budget policy framework area at this point in time, so the core need for them continues to exist.

It is thus strongly recommended that any future EGGI activities or future EG projects include substantial policy advisory components in addition to reinforcement of the operational level successes exemplified by EGGI, and that projects and programs be specifically tasked, not only to perform these functions, but to keep the USAID Mission fully informed of core donor-supported advisory activities at the ministry level to assist in the effective management of donor relations.

CONCLUSIONS

The USAID Economic Growth and Governance Initiative (EGGI) has completed slightly more than half of its third year of operation. Seven work streams were established through the revised contract between USAID and Deloitte Consulting, LLP and its interaction with the approved Year 3 EGGI Work Plan. Through series of interviews with government and donor stakeholders, discussions, focus groups, and document reviews the evaluation team has reviewed efforts in each work stream. The EGGI work streams included the following efforts:

- ▲ Economic and Fiscal Policy Support
- ▲ Revenue and Tax Policy
- ▲ Program Budgeting Reform
- ▲ Provincial Budgeting Reform
- ▲ Provincial Tax Administration
- ▲ Revenue Reconciliation Database
- ▲ Women in Government

Work in the Economic and Fiscal Policy Support and Revenue and Tax Policy work streams generally has not yielded significant impacts. There was a clear opportunity provided in support to the Fiscal Policy Unit of the Ministry of Finance that was not capitalized upon by EGGI, although mitigating institutional circumstances exist which also helped play a role in the lack of EGGI progress. Given the lack of GIROA employees in the Fiscal Policy and Economic Forecasting Department, the provision of any additional assistance in this area should be deferred until that situation has been ameliorated.

Program Budgeting Reform, Provincial Budgeting Reform, and Provincial Tax Administration all performed effectively *within the purview of their self-perceived mandates* to provide operational level

capacity-building and familiarization/assistance in applying reform processes in their respective areas. In general, however, they have failed to make significant impacts in the policy framework areas governing these functions due to a number of key factors. Not all of these were completely under EGGI control. However, the lack of entrepreneurial action to ensure the inclusion of EGGI advisors as leading policy advisors to their MOF counterpart bodies is noticeable across the EGGI program, and should be reversed going forward to ensure active linkage to fiscal reforms in Afghanistan. It should also be noted that the initial failure of funding to be allocated to the provincial budgeting pilot programs has caused a substantial degree of bureaucratic turmoil at the provincial level that could impact the viability of this program moving forward. The progress recently cited in negotiations to secure funding is a positive step in this regard. Overall, the lack of focus on core budget policy framework areas means that much more remains to be achieved towards the medium-term budget planning objectives outlined in the EGGI contract.

Reconstruction of the Revenue Reconciliation Data Base is proceeding according to plan, thus again providing this useful tool to the Afghanistan Revenue Department after unforeseen technical challenges brought the system down. While the system is not yet completely operational again, it and the future enhancements contemplated are proceeding satisfactorily and in a timely manner. However, the technical challenges not resulting from systemic changes to other GIROA IT systems should have been foreseen and allowed for in system design.

The Women in Government work stream has been a reasonably impressive success thus far, with significant rollout potential if organizational and financing parameters are put in place to promote its sustainability and improve program monitoring systems.

Overall, the EGGI project is proceeding satisfactorily in Year 3 *except for its inability to effectively provide policy framework advisory services in key units of the Ministry of Finance*. In fact, when the 1st two project work streams (which have been terminated as a result of a combination of lack of impact and limited counterpart interest) are removed, the work of the project has excelled *at the operational process level*. However it is missing a critical element for ultimate project success and sustainability, in the form of its lack of the ability to deliver policy advisory services. This is in turn primarily due to a lack of access. The fact that the project is operating in a difficult and competitive donor environment, which sometimes limits its' access to policy makers, should not be allowed to excuse failures to secure access to the policy dialogue. The relatively narrow definitions of development assistance to be delivered the Year 3 Work Plan also have encouraged the Program to self-limit their scope beyond that envisioned by the USAID contract, and this artificial self-limitation of responsibilities has had a deleterious impact on the scope and sustainability of their work.

It should also be noted that insufficient resources have been deployed by the EGGI Program to accomplish its responsibilities in tax administration and budgeting. With the departure of one expatriate advisor in February, only one advisor has been available in tax, while the budget-related services have just effectively reached two expatriate advisors in April. The far reaching needs of provincial budgeting in all 34 provinces and greater advisory services in budgetary policy at the MOF indicate a need for additional international and CCN staff needs.

In relation to the Planned results under the Contract between USAID and Deloitte Consulting, LLP, the EGGI Program's results have been as follows:

Planned Results:

1. Improved fiscal policy and administration so that non-tax revenues are rationalized, revenue

collection is increased to cover the operating budget, the revenue raising and spending authorities of the provincial and local governments are clarified, an analysis capability is established in the MOF, and a balanced budget is achieved by 2014/15. No progress has been achieved in the rationalization of non-tax revenues or the establishment of an analysis capacity in the MOF. Limited progress in increasing tax collections to cover operating budget expenditures through the establishment and operations of 3 MTO, which has also enhanced clarity in tax collections activities at the sub-national level. At current levels of progress, a balanced budget is unlikely by 2014/15.

2. Office of the Minister of Finance competent in developing and establishing effective economic policies and supporting and monitoring compliance with IMF and ARTF benchmarks. Although the performance reports supported under program budgeting reform could provide some information to monitor compliance with benchmarks, generally EGGI has not provided any services toward achieving this result during Year 3, as the economic and fiscal policy support work stream made limited progress and relatively little policy work has been done.
3. MOF's ability to provide quality quantitative support and analysis for critical MOF functions, strengthened, such as further development of the medium-term expenditure framework (MTEF), macroeconomic projections, revenue and expenditure forecasts, and policy analysis and simulations. Due to the lack of progress in the economic and fiscal policy support work stream, little progress has been made toward this result.
4. Tax administration and revenue collection in the MOF Revenue Department Small, Medium, and Large Taxpayer Offices improved in accordance with international best practices with a focus on improved taxpayer services and public education, transparency, IT systems, and draft laws, regulations, and procedures needed to bring tax policy and implementation into line with leading international practice. The extensive operational level work of the EGGI Team in tax administration, taxpayer education, and taxpayer services for the MTOs has been generally successful, but the limited work in the LTOs, lack of work with STOs, and lack of policy and procedural documentation assistance has led to limited results. The IT work on the RRD is successfully enhancing system functionality and impacts, and revenue collections in the pilot MTO have also increased significantly.
5. Afghanistan's budget reform plan implemented through establishment of program budgeting and provincial budgeting, and improved budget management, planning, procurement, and execution. The extensive efforts of the EGGI Team in program and provincial budgeting have led to significant operational and administrative process-level successes. However, on the budget policy side there has been limited progress. EGGI support to the PFP and performance reporting processes has improved these facets operationally, but again there has been little EGGI input in any matters of budgetary policy.
6. ANDS implementation is well-coordinated, leveraging donor funding and private sector investment in priority areas across Afghanistan resulting in increased economic growth. Budget expenditures are programmed and executed effectively at all levels of government, in line with ANDS initiatives. Monitoring systems are in place to ensure that key social programs are implemented, particularly those targeted at the poor, women, youth and other vulnerable groups such as ethnic minorities and disabled. The operational and administrative progress in program budget development made under EGGI's program and provincial budgeting work streams, and the assistance to monitoring through performance reporting assistance, represents significant progress

toward this result. However, EGGI's inability to engage at a meaningful level on policy has meant that programming and execution of budgets and rigorous congruence with the ANDS have been only marginally influenced up until now.

In this sense the program does not appear to be impacting at present in a significant way on decisions to shift spending towards or away from major activities; but rather has up until now served mainly to help *organize* the preparation and presentation of the budget in a more orderly and well-documented manner. The key now is to ensure that the level and intensity of engagement is scaled up to take advantage and build off of the budget process reforms thus far accomplished; in order to focus effectively on medium-term budget planning advances through which budgetary allocations can be guided in a more equitable and efficient direction. Finally, it should be noted the Program has not engaged in budgetary analysis activities designed to encourage/promote design and monitoring of major social programs in a manner which effectively targets disadvantaged groups - other than through the project's self-directed WIG Program; and as a result the program has yielded limited impact for those elements of the expected result.

7. Women's' Issues. EGGI's WIG Program has been successful in generating permanent public employment positions for women in response to Modification 15 to the original contract.

STRATEGIES FOR THE FUTURE

In line with the analysis provided above, there remain a number of critical gaps in major fiscal policy framework and administrative oversight parameters which need to be addressed in order to achieve the GIROA's core budgetary sustainability and efficiency goals.

In Economic and Fiscal Policy, the exclusive reliance on basic spreadsheet-based systems of fiscal projections, and the related limitations on budgetary forecasting will constrain the ability of GIROA to make informed and sustainable budgetary allocation decisions in future. However, the development and sustainable implementation of new systems may be hampered by fiscal policy unit staffing limitations. Future efforts to engage should be made, but the training of other donor personnel and the establishment of donor monopolies on capacity enhancement activities should be avoided. Additionally, the data produced by the new Fiscal Policy and Economic Forecasting Department should be linked more effectively to the ANDS strategic plan, and to a robust medium term budget framework. This will in turn facilitate a more rigorous budget prioritization process, which is effectively informed by realistic budget sustainability parameters.

In the revenue sector, a major need exists to expand the advances in tax administration practices currently being carried out by the pilot MTOs to the remaining MTOs and to the network of LTOs. Additional issues that should be addressed in the tax policy sphere include the establishment of a robust IT system to support and buttress operational reforms; provision (as planned) of a web-based RRD system; and the creation of a tax treaty department within the ARD. Reforms in the system of non-tax revenues of the Traffic Department, regarding which recent positive EGGI-supported signs of progress have emerged, are also important to support the perception of GIROA legitimacy. These should be supported if the GIROA continues to display institutional readiness to move forward towards consolidation of reforms in this area. Moreover the provision of written manuals and other materials to assist in the sustainability of operational tax administration progress is vital; and the creation of an overarching institutional mechanism that would allow GIROA and ARD to continue to enhance the capacities of their systems and staff, while also expanding the coverage of modernized tax offices, should be supported with targeted technical assistance.

While the reforms that have formed the current structure of the budget system of Afghanistan have been significant, further reforms are necessary for GIROA to gain the transformational benefits anticipated through the introduction of a program budgeting system. Needed reforms or enhancements to the current structure include the following:

- ⤴ The prioritization and allocative efficiency of the system should be improved through the implementation of a rigorous process of cost-benefit and cost-effectiveness analysis to be considered as a primary factor in the prioritization of projects by the Ministry of Economy and by the line ministries/agencies at the BC-1 phase of the budget development process;
- ⤴ Improvements in budget execution, concentrating on more rigorous analysis of development and recurrent budget expenditures on both a medium term and annual basis, should substantially improve budget execution rates by reducing or eliminating input errors to the budget process;
- ⤴ Development and expansion of a de-concentrated budget development and execution model for provinces that allows for an enhanced level of provincial decision-making within the framework of central government strategic plans;
- ⤴ The adoption of program budgeting as the actual basis for appropriations - as opposed to an additional process through which the appropriations and allocation process passes - and its explicit incorporation within the structure of Treasury accounts and budget execution;
- ⤴ The introduction of both line ministry and MOF formal analysis of programs in relation to their efficiency and performance in relation to impact and cost-efficiency indicators, and potentially also expanded to include supreme audit institution performance audits, should in turn enhance the overall efficiency and effectiveness of public expenditures;
- ⤴ The continued development of rigorous output and outcome performance indicators through the established quarterly reporting system and tied more closely to the efficiency and cost-effectiveness of programs should also be encouraged, along with the generation of performance indicators at a disaggregated level for sub-national entities;
- ⤴ The introduction of a medium term budget framework that includes core fiscal framework parameters and sectoral and program expenditure ceilings, and articulates both program efficiency and cost-effectiveness goals and targets; and
- ⤴ An overriding priority should be the de-facto integration of the recurrent budget, the development budget, and off-budget projects into a single budgetary stream to ensure that decision-makers have sufficient information to make informed, comprehensive and sustainable budget allocation decisions.

Lastly, a significant gap exists in support for creating robust public financial management-related human resource capacity. Sustainably enhancing this capacity entails a three-pronged effort: Post graduate educational opportunities abroad (with sufficient safeguards for students' return); support for rigorously defined courses of study in university-level institutions of public administration and/or public financial management; and establishment of Public Finance Institutes, whether free-standing as sub-units of ministries or as part of some overall GIROA training organization, that provide ongoing training and education for MOF and other employees responsible for public financial management at the national and provincial levels. This level of investment, by making public employees stakeholders in both their own advancement and thus that of their institutions, is a tool whose positive impacts on sustainability can be substantive and continuous.

In conclusion, EGGI has had a number of significant successes, most often at the operational and administrative process levels. At the same time its inability to engage more effectively at a policy level across a number of key project implementation areas has limited the impact and potential sustainability of

a number of key fiscal reform interventions under its contract with USAID. Enhanced emphasis on policy-level interventions should thus represent a core area of focus across major work streams under future program activities in the fiscal reform area.