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Economic Growth & Governance Initiative

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USAID's Economic Growth and Governance Initiative (EGGI) continued making strong progress in the second quarter of its third project year, particularly in supporting GIRoA to advance public financial management initiatives. With the close of Afghan Fiscal Year (FY) 1390, key project activities focused on supporting GIRoA to cement progress toward the goal of fiscal sustainability through support to the Ministry of Finance's (MoF's) program and provincial budgeting reform efforts, and assistance to improve provincial tax administration. The project's work in budgeting and tax administration directly supports GIRoA's goal of fiscal sustainability leading up to the 2014 transition.

At the close of FY 1390, budget execution rates increased to 52%, a 13 point increase over FY 1389. The Parliament also noted budget submissions for FY 1391 were improved over the previous year. Overall, GIRoA has demonstrated improved capacity to link strategic objectives with the annual budget, improving transparency of the budget process, and improving accountability of line ministries for funded services and activities. On the provincial budgeting side, the project supported the MoF to complete a comprehensive training program for over 800 provincial officials across 18 provinces in Public Financial Management. The Medium Taxpayer Offices (MTOs) in Herat, Balkh, and Nangarhar continued to demonstrate strong revenue collection results not only reaching, but exceeding their annual collection targets of 231 million, 289 million, and 213 million AFN, respectively for FY 1390. Strong annual collection results reflect ongoing emphasis on working with MTO staff to target specific tax categories for focused taxpayer education and outreach.

The month of March included celebration of International Women's Day and release of a new USAID policy on Gender Equality and Female Empowerment. In line with an increased focus on gender initiatives in development, the project continued to grow the Women in Government Internship Program. On March 18, USAID's Mission Director, Dr. Ken Yamashita and the Minister of Finance, H.E. Omar Zakhilwal, signed a "Statement on Planned Collaboration," formalizing an expanded partnership and commitment to the program. The statement, which establishes up to 100 intern positions in MoF agencies, is designed to not only strengthen the partnership between USAID and the Ministry, but also to promote the concept of internships/apprenticeships in Afghanistan as a way to expand job training and employment opportunities for women throughout the public sector. USAID's Women in Government program strives to remove constraints on women's potential to participate in the reconstruction process by placing recent female university graduates in six-month internships with GIRoA organizations. Improving women's participation in public sector activities will have a transformational impact on reconstruction efforts and is vital to the overall development of Afghanistan.

In Economic and Fiscal Policy, the project completed the first module of EViews economic modeling software training for staff of the MoF's Fiscal Policy Unit (FPU). In tax policy, the project worked closely with the MoF's Non-Tax Revenue Department to identify motor vehicle and traffic related revenue processes as a key potential area for non-tax revenue reforms. A report outlining reform recommendations was submitted to USAID at the end of the quarter.

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Quick Q2 Recap: Notable Areas of Progress

- 1) Program Budgeting:** Supported budgetary units to complete their 1391 budget submissions based on feedback from the December 2011 budget hearings; assisted 46 budgetary units to complete Procurement and Financial Planning forms.
- 2) Provincial Budgeting:** Supported the MoF to conduct a comprehensive training program in Public Financial Management for over 800 provincial officials from 18 provinces.
- 3) Tax Administration:** Supported the Medium Taxpayer Offices of Herat, Balkh, and Nangarhar to exceed their annual revenue collection targets of 231 million AFN, 289 million AFN, and 213 million AFN, respectively.
- 4) Women in Government:** Facilitated expanded partnership with the MoF to implement the internship program; hired and placed 45 new interns, representing an overall, life of program, alumni full-time job placement rate of 77% (exclusive of interns that have either left Afghanistan or self-selected out of the job search).
- 5) Tax Policy:** Submitted a report outlining recommended reforms to streamline the vehicle registration process and enhance collection of associated non-tax revenues.

Q2 Objectives in Line with Results



Project programming is consistent with USAID/USG strategic objectives in Afghanistan, which seek to advance transition to a more stable and productive state through the promotion of effective economic policy and decision making. Project advisors worked directly with GIRoA counterparts to achieve the following results in Q2 of project Year 3. In the table below, quarterly objectives and results are broken down by associated workstream.

Workstream	Quarterly Objective	Quarterly Results
Economic and Fiscal Policy	Continue training for staff of the Fiscal Policy Unit (FPU) in the use of EViews software.	Completed the EViews workstream and support to the FPU, training 4 staff (resulting in 17 person days trained) from the FPU in the use of EViews economic modeling software. The aim of the training was to improve FPU staff skills to develop and apply estimation models using local fiscal and economic data, including the review and improvement of existing forecasting models and the development of new models.
Tax Policy	Continue to support the Working Group, ARD, Mol, and Kabul Traffic department officials to initiate review of related processes to determine ways in which to streamline the processes and ultimately enhance non-tax revenues.	Submitted a report outlining recommended reforms to streamline the vehicle registration process and enhance collection of associated non-tax revenues.
Program Budgeting	Support assigned budgetary units to complete FY 1391 budget submissions based on feedback of the Budget Committee Hearings. Support budgetary units to complete Procurement and Financial Planning Forms.	Supported 38 assigned budgetary units to complete their 1391 program budgets. Also supported 46 budgetary units to complete Procurement and Financial Planning (PFP) forms. Donor-funded support for the program budgeting reform initiative has resulted in an increase of budget executions rates for FY 1390 of 52%.
Provincial Budgeting	Assist the MoF to rollout annual training program in public financial management for roughly 800 provincial officials from 18 provinces. Deliver two unique programs: four-day Consultation and Coordination (C&C) workshops and two-day Capacity Building Training (CBT) workshops.	Supported the MoF to conduct a comprehensive training program in public financial management for over 800 provincial officials from 18 provinces. Assisted the MoF to start planning for the national budgeting symposium, and provincial budgeting lessons learned workshop scheduled for April 2012.
Provincial Tax Administration	Support ongoing installation and strengthening of Medium Taxpayer Offices (MTO) in Herat, Mazar, Jalalabad, and Kandahar. Complete Basic and Functional Management Training for ARD MTO and LTO managers, and support readiness for the start of the taxpayer filing season in MTO locations.	Supported the Herat, Balkh, and Nangarhar MTOs to exceed their FY 1390 revenue collection targets of 215, 200, and 150 million AFN respectively. For all of FY 1390, collections at the MTOs totaled 231,054,954 AFN (for Herat), 289,414,965 AFN (for Balkh), and 213,128,620 AFN (for Nangarhar). Completed Basic Management Training for 69 ARD tax managers.
Revenue Reconciliation Database and Application System	Continue to support the RRD Working Group, complete and assessment and prototype for a potential web-based RRD system.	Continued to lead the RRD Working Group. Completed an assessment of specifications for the new RRD system and delivered a prototype and presentation for the ARD. Completed a connectivity capacity assessment for provincial Mustofiats and initiated testing in Kabul line ministries.
Women in Government	Expand the Women in Government Internship program and facilitate a high-level event with GIRoA and USAID to garner excitement for the program.	Facilitated signing of a "Statement of Planned Collaboration" between the USAID Mission Director and Minister of Finance to expand partnership and commitment to the internship program. Hired an additional 45 interns and placed them in positions with GIRoA. Graduated nine interns and representing an overall, life of program, alumni full-time job placement rate of 77% (exclusive of interns that have either left Afghanistan or self-selected out of the job search).

Progress Towards Meeting Objectives

Program Budgeting

Ministry of Finance delivers training on the Procurement and Financial Planning to the budgetary units in March 2012.



proposed activities/projects;

- Improved provincial breakdown—for both operating and development budgets;
- Links to poverty reduction objectives—marked improvements for projects and operating budget activities in five line ministries (Ministry of Labor and Social Affairs, Ministry of Rural Rehabilitation and Development, Ministry of Agriculture Irrigation and Livestock, Ministry of Public Health, and Ministry of Education).

execution stages of the budget;

- improve overall service delivery and results on the ground.

Procurement and Financial Planning is also a valuable tool for MoF directorates. The Budget Department will use PFP as a monitoring tool during the budget execution stage. Additionally, the Treasury Directorate can leverage the tool to improve cash management and disbursements by geographic location on a monthly basis for all ministries/budgetary units.

During the upcoming quarter, the project will continue to support budgetary units during budget execution. Embedded advisors will continue to provide daily support and on-the-job training to budget officials with a special focus on allotment and payment procedures.

During the quarter, the program budget team advanced efforts to improve public financial management supporting budgetary units to complete FY1391 draft budget submissions for Parliamentary review and approval. At the close of FY1390 in March, development budget execution rates showed marked improvements over previous years, hitting 52%. Additionally, program staff embedded in budgetary units supported 46 budgetary units to finalize their Procurement and Financial Plans (PFPs) for the 1391 budget. Finally, with the arrival of a new program budget advisor, an inception report was delivered providing a fresh look at the status of reform efforts and the project commenced a comprehensive Capacity Assessment review of all budgetary units to evaluate sustainability of reform efforts.

The aforementioned improvements, resulted in stronger budget submissions and subsequently helped Parliament with their review and discussions. This year, members of Parliament, in reviewing budgetary allocations, were able to focus more on alignment of the budget with national and provincial priorities, links to poverty reduction objectives within the ANDS, gender sensitivity, and detailed output and outcomes.

The 1391 budget formulation process and draft budget clearly demonstrated improved capacity in line ministries to formulate the budget and coordinate with the MoF. Project support to the budgetary units contributed to the increased capacity in line ministries in formulating the budget and submitting better proposals for 1391.

Line Ministries Finalize 1391 Budgets for Parliamentary Approval

The project's program budget team continued to support assigned line ministries to complete their 1391 budget submissions and the 1391 budget draft was finalized for Parliament discussion and approval in late January 2012. Following Budget Committee hearings in December 2011, the Committee prepared a draft budget for Cabinet approval. The Cabinet discussed the budget on January 23, and recommended changes for budgetary units. Project staff embedded in the ministries assisted ministry staff to finalize their submissions based on the revisions by the Cabinet.

Throughout the 1391 budget preparation process, improvements in coordination were realized within individual line ministries as well as across the MoF. Specifically, improvements were demonstrated in the following areas:

- Project Costing—more realistic compared to previous years;
- Output and outcome indicators—better indicators identified for programs and projects in most budgetary units;
- Resource alignment—Better alignment of resources with sector/ministry strategies and the Afghanistan National Development Strategy (ANDS);
- Gender sensitivity—More information provided on incorporation of gender in

Forty-six Budgetary Units Complete Procurement and Financial Planning Forms

With support from project staff, 46 budgetary units finalized their PFPs for the 1391 budget. Support to complete PFP documents was provided in the form of advisors embedded in line ministries, as well as establishment of a mobile team. Program budget advisors embedded in 38 units provided intensive daily support for budget activities and PFP submissions. For more experienced budgetary units, a mobile team was formed to provide targeted support as needed. The MoF requested the team to focus on 14 key budgetary units that have about 87% of the development budget. Because many of these budgetary units have graduated from project assistance (meaning they no longer require embedded donor support), a mobile team was established composed of five senior advisors.

The PFP process, which was simplified for the 1391 budget, provides a detailed breakdown of approved budget by program, budgetary unit, fund component, geographic location and month. PFP allows budgetary units to:

- prepare a more accurate and systematic annual expenditure plan;
- promote better budget prioritization;
- strengthen the planning, monitoring and

Project Commences Risk Assessment of Budgetary Units to Evaluate Sustainability of Support

At the request of USAID, the project initiated a Risk Assessment of assigned budgetary units to measure each unit's current capacity in program budgeting and recommend actions to strengthen its capacity to ensure sustainability of donor budgeting assistance.

The team is leveraging a tailored assessment tool comprising 12 variables to measure key areas of program budget reform capabilities within each budgetary unit. These variables evaluate the political climate and commitment of the ministry's senior management to reform initiatives, technical capabilities of the Budget Implementation Teams (BITs)/Internal Budget Committees (IBCs), BIT/IBC member retention, the status of pay and grading reform implementation to assure qualified staff, extent of program budgeting training for staff, staff knowledge of ANDS/Sector/Ministry Strategy, and current capacity of key technical staff in program budget preparation, procurement and financial planning, and performance monitoring reporting. The tool rates each variable on a scale of 1-5 with 1 representing "poor" and 5 representing "excellent".

The assessment will be completed early in the third quarter and will provide a detailed look at each budgetary unit with specific recommendations and follow up actions. The final assessment will complement related assessments planned by the MoF to evaluate program budget structures of all budgetary units, and assess program budget capacity of eight ministries that currently receive project assistance and have been identified for possible graduation from the project's assistance in 2012. By end March, the team had completed interviews and assessments of over 30 budgetary units.

SPOTLIGHT

On improved budget execution rates for FY 1390

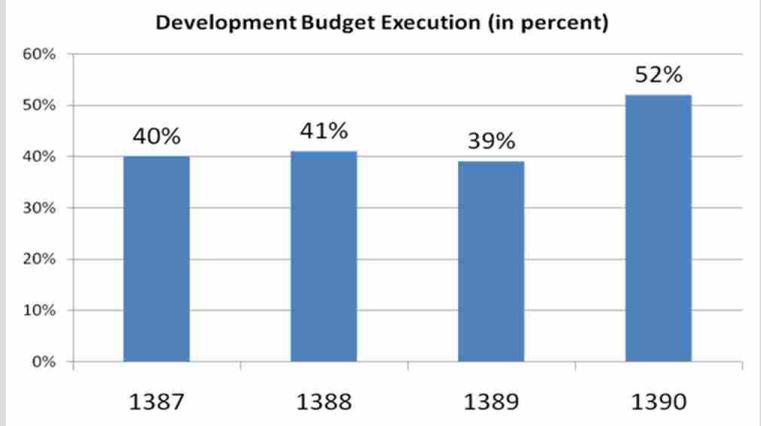
With close of FY1390, GIRoA saw marked improvement in budget execution rates for the year. The development budget execution rate for 1390 hit 52%, up from 39% in 1389. This increase is partly attributable to USAID support to the Ministry of Finance's (MoF) program budget reform initiative with a particular focus on building capacity of budgetary units to improve procurement processes and financial planning and budget formulation.

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

Development Budget Execution Hits Record High

For the first time, the total GIRoA development budget execution exceeded the billion dollar mark. The key reasons for such an improvement and increase in budget execution rates include improved budget formulation through the roll-out of the MoF's program budgeting reform initiative to all budgetary units, and introduction of Procurement and Financial Planning (PFP) in budgetary units for the first time for the 1390 budget. This is evidence of the value of the USAID assistance in enhancing public financial management activities of GIRoA.

When program budgeting activities began at the MoF in 2007 (under predecessor USAID project's) assistance was piloted to a handful of ministries, focused on budget formulation for the 1387 budget. Today, all budgetary units are included in the reform program. During the quarter, the



project's program budgeting team supported 46 budgetary units in improving budget formulation and budget submissions for FY1390 through program budget reform and PFP. Project support enabled budgetary units to prepare better budget proposals with more realistic costing and alignment with their respective strategies and the Afghanistan National Development Strategy (ANDS) results framework.

For the first time, the team also assisted 46 budgetary units in the preparation of PFP documentation. The PFPs helped line ministries to start procurement plans in advance of major projects, which in turn helped in having better expenditure plans and prioritization of expenditures for each month. The team helped budgetary units in processing of allotments and payments throughout the year based on PFPs. The team also provided support to 38 line ministries for the 1391 budget on program budget submissions and to 46 budgetary units on PFPs for the 1391 budget. This support is expected to further increase the budget execution during 1391.

Preview—A Look at Early Findings of the Ongoing Program Budget Risk Assessment Analysis

The project launched a comprehensive Risk Assessment looking at all budgetary units and their capacity to sustain program budgeting reforms. While the report is still in production mode with an anticipated completion date of mid-April, early findings include:

- In the past few years, training programs and USAID support have strengthened the capacity of budgetary units in budget formulation and program based submissions.
- Donor support – through improved budget formulation and PFP – also contributed to increased budget execution in many budgetary units.
- Frequent staff turnover and transfers continue to be a major impediment in implementing program budget and associated reforms by budgetary units. Pay and grading reforms, which are currently being implemented in most ministries, are expected to improve staff retention. In most cases, budgetary units are hiring existing staff under the pay and grading reforms, but this does not appear to have resulted in significant capacity improvements.
- The roles played by the minister and deputy ministers in guiding reforms varies across all budgetary units. In several budgetary units, sufficient political support is lacking to implement the reforms.
- There is a significant room for improving coordination with the MoF in most budgetary units.
- Even though all BITs/BICs are established, participation is weak in some budgetary units.
- Participation of relevant staff in training programs for the most part has been good. The majority of budgetary units consider the coaching sessions, provided by the project's program budget teams, effective contributing to building the capacity of their staff.
- Relevant staff in budgetary units— especially planning department staff – need more training in ANDS priorities, sector strategies, and their related indicators.
- Knowledge of and capacity for executing PFP and performance monitoring reporting (PMR) have been limited among BIT/BIC members. Budgetary staff expect more training and support from donors in this regard.

Next steps include preparation and submission of the final reports with recommendations to USAID. The follow up actions will be taken after thorough discussions with USAID.

Progress Towards Meeting Objectives

Provincial Budgeting

During the quarter, the project's provincial budgeting team worked closely with the Ministry of Finance (MoF) to develop a comprehensive public financial management training program for select provinces. The curriculum consisted of two unique programs: four-day Consultation and Coordination (C&C) workshops, and two-day Capacity Building Training (CBT) workshops. The training ran from February – March 2012 and was delivered to 827 officials from 18 provinces (Kunar, Nangarhar, Logar, Nuristan, Paktika, Badghis, Faryab, Sar-e-pol, Jawzjan, Samangan, Kandahar, Zabul, Ghazni, Kabul, Panjshir, Takhar, Badakhshan, and Baghlan). Additionally, the project supported the MoF to prepare for the provincial budgeting reform Lessons Learned workshop covering the 1391 budget process.

Ministry of Finance Commences Planning for Lessons Learned Workshop

During March 2012, the project's provincial budgeting team worked closely with the MoF Provincial Budgeting Unit to plan a Lessons Learned workshop on the 1391 provincial budgeting pilot scheduled for May 2012.

The Lessons Learned workshop is a forum for about 50 representatives from the MoF, Ministry of Economy (MoEC), and Independent Directorate of Local Governance (IDLG), as well as international donors (World Bank, USAID, DFID, JICA). Participants share their experiences and observations regarding the implementation of the 1391 provincial budgeting pilot that involved the four line ministries (Agriculture, Education, Public Health, Rural Rehabilitation and Development), as well as the IDLG and their 34 provincial departments. Workshop results will contribute to the identification of areas for improvement for the 1392 provincial budgeting program. The Lessons Learned workshop is tentatively scheduled for early May 2012.

Project's Provincial Budgeting Team Conducts Outreach Visits to Provinces to Sustain Momentum of Provincial Budgeting Reform Initiatives

The project continued efforts to improve coordination and communications with provincial officials to keep them abreast of developments in the provincial budgeting reform initiative. During March 2012, the project's East and Southeast regional provincial budgeting teams conducted introductory briefing meetings with Nangarhar and Kandahar provincial officials in an effort to sustain the mo-



The project's East region provincial budgeting officers brief Mr. Awal Gull Abuzahid, Acting Nangarhar Education Director, on the upcoming MoF provincial budgeting national policy symposium tentatively planned for April 2012 in Kabul.

mentum of recent provincial budgeting reform initiatives. The teams met with the Director of the Nangarhar Rural Rehabilitation Directorate and Sector Director, and the Kandahar Deputy Public Health Director.

The purpose of the meetings was twofold: to introduce the project's newly-hired provincial budgeting and reporting officers, and to brief provincial officials on the successful progress of the MoF-led provincial C&C and CBT workshops delivered during February-March 2012. The provincial budgeting team also informed the officials of the upcoming MoF provincial budgeting national policy symposium.

The provincial directors of 11 line directorates (Education, Agriculture, Rural Rehabilitation and Development, Public Health, Public Works, Mustofiat, Provincial Council, Women's Affairs, Economy, Energy and Water Directorates) from each province will participate in the two-day symposium being held by the MoF, MoEC, and IDLG with the project's support. The project's provincial budgeting team will assist with the organization of the symposium (logistics, participant communication, printing of materials) and help to facilitate working group sessions during the symposium event.

Challenge:

Program Based Appropriations

The lack of sufficient political support in implementing program budget reform and moving towards program based appropriations can be a big obstacle to fully benefiting from the re-

form. Similarly, low capacity and the lack of seriousness in implementation of merit based recruitment may hinder the program budget and associated reforms. Another major challenge includes the lack of donor funding for programs. The government has to start addressing these challenges immediately.

Recommendations to overcome the challenges include strong political commitment from the Government, commitment from donors for funding programs, and merit based recruitment by budgetary units. The project will discuss with MoF officials and provide necessary guidance and advice in these areas.

Procurement and Financial Planning (PFP)

Even though budgetary units prepare PFPs with support from the program budget team, the lack of fully prepared projects in many line ministries, the lack of donor disbursements on time, and lengthy procurement procedures continue to be major impediments in implementing the PFPs. The project is proposing to support key line ministries with high development budget in project planning and design, which may help these budgetary units to execute their projects more effectively.

SPOTLIGHT

On delivery of MoF intensive PFM training program for provinces

During the quarter, the project's provincial budgeting team worked closely with the Ministry of Finance (MoF) to develop a comprehensive Public Financial Management (PFM) training program for select provinces. The curriculum consisted of two unique programs: four-day Consultation and Coordination (C&C) workshops, and two-day Capacity Building Training (CBT) workshops. The training ran from February – March 2012 and was delivered to 827 officials from 18 provinces.

The purpose of the PFM course was to build capacity in key areas such as budget formulation and execution, the procurement process and procedures at the provincial level, National Priority Programs (NPPs) and transition, MoF Budget Circular (BC) forms, and aid management. Since 2010, MoF conducts the comprehensive training program each year for the selected provinces as part of its annual provincial budgeting action plan with the project's support. In 2010-2011, MoF conducted the CBT program for 12 provinces (Daikundi, Helmand, Farah, Nimroz, Parwan, Kapisa, Samangan, Baghlan, Wardak, Paktika, Khost, and Noristan) and C&C workshops for 14 provinces (Bamyan, Khost, Helmand, Herat, Badghis, Ghor, Farah, Zabul, Nimroz, Wardak, Logar, Ghazni, Paktya, and Noristan). For the 2012 program, MoF delivered the training programs for about 18 provinces (Kunar, Nangarhar, Logar, Nuristan, Paktika, Badghis, Faryab, Sar-e-pol, Jawzjan, Samangan, Kandahar, Zabul, Ghazni, Kabul, Panjshir, Takhar, Badakhshan, and Baghlan). The project provided support to the MoF in managing logistics, organizing training events, and in delivery of technical training modules.

The PFM training is important to build capacity and increase the knowledge and awareness of key provincial line directorate officials (including the Director, and finance, administration and planning department managers) in MoF budgeting and financial management procedures. This effort aligns with the government's policy to improve overall budget planning and execution at the provincial level. Under the government's new provincial budgeting reform policy approach, provincial line directorates of pilot line ministries provide input into the national budget process on priority development project proposals that reflect local priorities,



Badghis officials participate in a working group session on budget costing methodology during a four-day MoF-led Capacity Building Training workshop held in Herat in February 2012.

and the operations and maintenance expenses to sustain the projects.

The foundation of learning in public financial management complements and reinforces the practical experience that provincial line directorates gained in budget planning and prioritization under the MoF's 1391 provincial budgeting pilot, which included four line ministries (Agriculture, Education, Public Health, Rural Rehabilitation and Development) and the Independent Directorate for Local Governance (IDLG). Under the pilot, provincial line directorates identified priority development projects in line with their line ministry's national priority programs, costed the projects, and then completed budget estimate forms to incorporate the project proposals into the 1391 national budget. The majority of provincial line directorates completed the forms and successfully submitted them to their respective line ministries by December 2012 as the MoF prepared the draft national budget for Cabinet approval.

The PFM training program delivered during the February-March period with the project's support marked the next step in the MoF's provincial budgeting reform capacity building program rollout in the key regions for the provinces and is in preparation for the next phase of the MoF provincial budgeting pilot for the 1392 national budget process.

Badakhshan and Takhar officials complete MoF Budget Circular forms during an MoF-led four-day PFM training program held in Badakhshan in March 2012.



GIRoA Continues to Improve Public Financial Management by Promoting Alignment Between Provincial and Program Budgeting Reform Efforts

Outcomes of GIRoA's provincial budgeting reform efforts are now more closely aligned with the Government's overall program budget reform. With improved budget preparation by provincial directorates and submission to line ministries, provincial priority project proposals were captured in the pilot line ministries' 1391 program budget submissions and considered in the Parliamentary review process during February to March 2012. As a result, provincial inputs are more strongly reflected in the draft national budget for approval. This trend is expected to continue and serves as a positive indication that the provincial budgeting workstream is results to better reflect provincial priorities in the national budget.

Progress Towards Meeting Objectives

Provincial Tax Administration

During the quarter, the Medium Taxpayer Offices (MTOs) of Herat, Balkh, and Nangarhar, continued to realize strong revenue collection results and closed FY 1390 meeting their annual revenue collection targets.

USAID Supported MTOs in Herat, Mazar, and Nangarhar Exceed Annual Collection Targets for FY1390

The Herat, Balkh, and Nangarhar MTOs exceeded their FY 1390 revenue collection targets of 215, 200, and 150 million AFN respectively. For FY1390, collections at the MTOs totaled 231,054,954 AFN (for Herat), 289,414,965 AFN (for Balkh), and 213,128,620 AFN (for Nangarhar).

Official collection targets are established by ARD Planning Division, however, the MTOs were also required to meet an additional target established by provincial Mustofiats. The Mazar MTO reached its official target during the last quarter, but attained its overall target in February of the second quarter. Herat and Jalalabad attained their targets during the second quarter.

These strong revenue collection figures show sustainability of progress at MTO locations and reflect the benefits of the project's emphasis on taxpayer education and outreach as well as managing by revenue statistics and requiring MTO Directors to target categories of taxes that show reduced collection figures compared to the previous months. This allows for focused taxpayer education and outreach programs that have significantly improved tax return filing rates, contributing to the additional collections.

Collection goals for tax year 1391 (2012/2013) are scheduled to be established

during April or May 2012, however, the advisor has already commenced discussions with each MTO Director regarding the inclusion of additional strategies that will be necessary to achieve 1391 goals. Most strategies include some form of taxpayer education coupled with taxpayer outreach projects as it is anticipated that targets will be raised beyond 1390 levels, thus there will be a need to increase each MTO's taxpayer population.

Herat and Mazar MTO Increase Tax Return Filings

The MTOs in Herat and Mazar saw improvements in taxpayer return filings by 21% and 14% respectively over tax year 1390. The increase is a result of a continued focus on taxpayer outreach and education efforts during the year and an targeted push during the final months of the fiscal year. During January-March, strong emphasis was placed on reaching taxpayers to inform them of their obligations under Afghanistan's self-assessment tax system. In the process, Herat's filing compliance improved to approximately 70% of taxpayer cases in inventory while Mazar improved to approximately 55%.

Management Training Conducted for 31 MTO and LTO Managers

In the second quarter, USAID completed a series of training sessions in basic and functional management for 31 Afghanistan Revenue Department (ARD) staff assigned to MTOs and Large Taxpayer Offices (LTOs) in Kabul and supported provinces (Herat, Balkh, Nangarhar, and Kandahar). The program was designed to build capacity of GIRoA LTO/MTO managers to better support and improve operational activities in their respective offices. In March, the project held the fourth and final session in the series for 15 ARD Managers at the Serena Hotel in Kabul. The training was relocated to the Serena Hotel because of security restrictions limiting presence at the ARD.

The training program covered leadership, basic and functional

management, strategic and organizational planning, and goal setting for managers. The functional aspect of the training dealt with issues relating to managing a tax administration unit, such as "audit" or "enforcement." Among the topics included were leadership, management, planning, and goal setting.

The training was conducted over a five month period for 69 managers assigned to the LTO/MTOs along with the project's four Cooperating Country National (CCN) tax administration team. Participation of the CCN team was intended to improve delivery of advisory services and communications with MTO staff, and promote information flow. The project supported the training by developing the training materials, organizing logistics, and delivering the training modules. USAID branded certificates were issued to participants who completed an assessment with a passing score.

Fully Staffed Provincial Tax Administration Team Hits the Ground Running in Providing Support Provincial to MTOs

The project completed CCN recruitment and staffing with the commencement of assignments for two staff in Jalalabad and Mazar. With all provincial MTO taxpayer offices staffed, the project has been better able to provide advisory services and obtain pertinent, real-time information from the MTOs. All CCNs attended and successfully passed the assessment for the management training delivered in Kabul over the past few months. Throughout 2012, all CCNs will receive training in Afghanistan tax laws and procedures, management, and consulting, and will be required to participate as a student in all technical training delivered to ARD tax officers.

Significantly, the presence of project staff in Jalalabad has improved information flow important to the provision of advisory services.



Participants in the Basic Management training were awarded certificates of completion following the final course session in March 2012.

Chart 1: Total Revenue Collected from 21 March 2011 to 19 March 2012 In Herat, Mazar, and Jalalabad MTO

Code	Description	Amount in AFN		
		Herat	Mazar	Jalalabad
11100	Sole Proprietary Traders	10,000	-	-
11105	Govt Contracts Goods Services	5,008,128	50,449,580	57,954,871
11200	Salary Wage Withholding	22,121,380	100,780,610	140,692,398
11201	Declaration Income (PIT-Ind.)	10,066,310	7,461,413	1,090,110
11202	Company Income Tax (PPE)	38,071,771	45,666,590	1,316,334
11203	Profits Coop, Social (CIT Coop)	-	128,158	-
11207	Rental Services Withholding	5,910,394	11,478,883	7,024,960
11211	Withholding Taxes on Dividends	-	367,407	-
11213	Contract Withholding Tax	19,976,939	11,260,544	-
11303	Tax Sale Movable Prop	1,581,949	-	-
11401	Receipts Pvt Entit. (BRT) 2 %	105,103,463	49,970,772	2,135,903
11402	Receipts SOE (BRT-SOEs) 5%	854,317	316,308	-
11403	BRT on Services - 10%	-	1,236,234	579,344
11700	Overdue Income Tax (Penalties)	4,944,322	9,225,810	-
11701	Fines BRT-Penalties	10,134,646	86,036	2,299,220
11702	All Other Tax Penalties	5,093,686	986,620	-
13343	Sukook Revenue	242,649	-	5,050
13348	Broker License Fee	1,935,000	-	-
222999	Nil	-	-	30,430
	Total	231,054,954	289,414,965	213,128,620

Continued on page 9

Progress Towards Meeting Objectives

Provincial Tax Administration

Continued from page 8

With the placement of a CCN tax officer in Jalalabad, the project was able to track MTO progress towards achieving its 1390 collection target of 150 million AFN.

Activities at the Kandahar MTO

The installation of MTO units in Kandahar was completed in December 2011. The project advised on the appropriate offices to be installed. Although, the offices have been installed, the MTO does not yet have a taxpayer case inventory to commence their work. This is due to a delay in delivery of documents authorizing the start of MTO operations. These documents are to be facilitated by the office of DM Shah, which is in progress. The advisor will work with counterparts and the MTO National Director to resolve this issue and monitor progress on the ground through the project's local national analyst. Meanwhile, the analyst continued to provide daily support and guidance to the MTO Director and four staff.

Project Supports Taxpayer Filing Service Readiness at MTOs

The project supported provincial MTOs to prepare for the tax filing season, which commenced on March 21, working in cooperation with Adam Smith International (ASI) advisors. The filing season readiness program, which started in January 2012, involved preparing the managers and staff of each MTO to deliver taxpayer educational seminars. Preparation was accomplished partly during management training, CCN involvement in their respective provinces and providing assistance to an ASI formal readiness program. In Mazar the CCN assisted the MTO Director in preparing a taxpayer education program, which was delivered to national audiences via a local television channel. The advisor assisted in furthering the forms printing process through persistence in discussions to free up bottle necks in the process, thereby, allowing for a relatively smooth start to the tax return filing season. The filing season will run until June 21, 2012.

MTO Revenue Collections

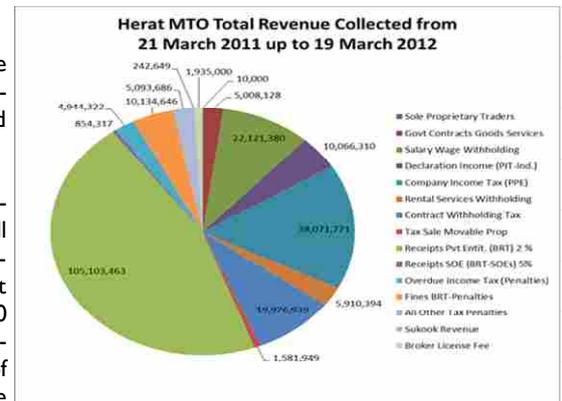
The Herat, Balkh, and Nangarhar MTOs exceeded their FY-1390 revenue collection targets of 215, 200, and 150 million AFN respec-

tively. For FY-1390, collections at the MTOs totaled 231,054,954 AFN (for Herat), 289,414,965 AFN (for Balkh), and 213,128,620 AFN (for Nangarhar).

As shown in the charts, some of the reported data appears to indicate that all three MTO's are functioning well operationally, however, the data is somewhat misleading in Mazar and Jalalabad's 11200 data (Salary Wage Withholding, see chart-1, on page 8) which reported collections of provincial government employee wage withholdings, whereas, this is not the case in Herat where reporting covered private busi-

ness employees only. The Jalalabad chart indicates nine collection codes for which zero collection was reported, whereas, both Herat and Mazar reported zero collection for only Four and Five codes respectively. Also, Herat and Mazar's collection codes for which there was zero collection are not as significant in the revenue scheme as those in Jalalabad. Jalalabad's revenues in most collection codes are significantly lower than Herat and Mazar collections. The exceptions are in "salary wage withholding", "government contract withholding", and "rent withholding". As a border province, where there is much trader activity one would expect Jalalabad's 2% and 5% BRT to be significantly more than reported. The conclusion is either Jalalabad is not reporting accurately, or the MTO is not functioning as well as some of the collection data seem to indicate. The advisor believes that while there is some degree of misreporting in Jalalabad and Mazar, there are significant operational gaps in Jalalabad, and maybe large pockets of graph that are in need of attention.

The advisor has been in consultation for some time with ARD's Planning Directorate and ASI to clarify the revenue definition for each revenue code, and to provide direction to MTO's on which categories of revenues should and should not be reported by each MTO. It is anticipated that the Planning Directorate will publish revenue code clarification and instructions in the near future. Additionally, the advisor plans to increase consultative work

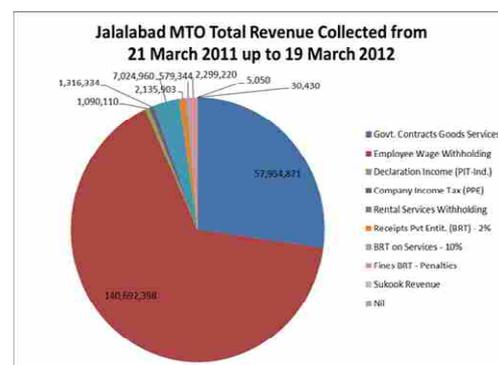
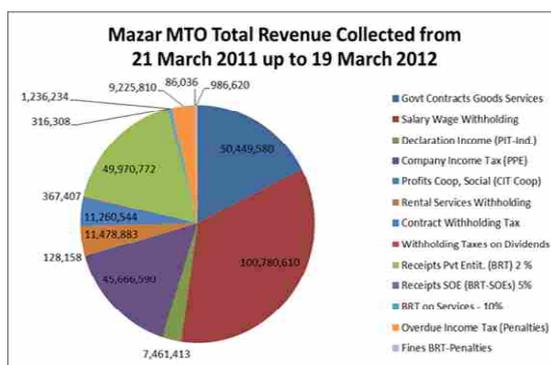


with Jalalabad's MTO Director both remotely and when he is in Kabul, to correct reporting deficiencies and strengthen his operational acumen, to include addressing badges of corruption where possible.

Challenge: Installation of Medium Taxpayer Office in Kandahar

The installment of the MTO in Kandahar remains a challenge. The MTO was originally scheduled for installation in July 2011, however, procurement and staffing issues stalled the installation. Eleven tax officers sat for the test and were hired, but only four showed up for the work. Those who did not report cited security concerns and said they felt threatened. The Tashkeel currently provides for the hiring of an additional 11 tax officers. Hiring is tentatively scheduled for May - June 2012.

Additionally, the issuance of taxpayer cases to tax officers continues to experience delays. The main reason for this is due to the fact that questions surrounding the current MTO Director's qualifications for service remains in question. The ARD Director General, National MTO Director, and the Human Resources Director are actively working to resolve this issue. In the meantime, the MTO is not functioning as the four employees are not properly assigned, and taxpayer cases are not being worked. The advisor is working with ASI to resolve technical issues while awaiting a settlement on the Director issue.



Progress Towards Meeting Objectives

Women in Government

The USAID Mission Director and the Minister of Finance signed a Statement on Planned Collaboration for the Women in Government Internship Program during a recent event in March 2012.



The Women in Government Internship Program continued to grow into a standalone technical workstream. During the quarter, 45 recent female graduates from Kabul University joined the program. One class graduated, maintaining a high overall, life of program, alumni job placement rate of 77% (exclusive of interns that have either left Afghanistan or self-selected out of the job search). Additionally, USAID and the MoF together signed a statement of planned collaboration, to add 100 new internship positions at the MoF. During the final two quarters of Year 3, the project will more than double the size and scope of the program offering internships to up to 680 female university graduates in Kabul and target provinces, and providing more training, mentoring, networking, and volunteer opportunities. The internship program targets recent female university graduates and provides an opportunity for women to gain on-the-job training and exposure to operations of various GIRoA ministries. The goal of the program is to help women to gain professional experience and develop job skills so that they can obtain full-time jobs in the public or private sectors following successful completion of internship assignments.

USAID Partners with MoF to Improve Female Participation in GIRoA

On March 18, USAID Mission Director, Dr. Ken Yamashita, and the Minister of Finance, H.E. Dr. Omar Zakhilwal, signed a statement of planned collaboration over the Women in Government Internship Program. The statement, which establishes up to 100 intern positions in Ministry of Finance (MoF) agencies, is designed to not only strengthen the partnership between USAID and the ministry, but also to promote the concept of internships/apprenticeships in Afghanistan as a way to expand job training and employment opportu-

nities for women throughout the public sector.

The Women in Government Internship program strives to remove constraints on women's potential to participate in the reconstruction process by placing recent female university graduates in six-month internships with GIRoA organizations. Improving the participation of women in public sector activities will have a transformational impact on reconstruction efforts and is vital to the overall development of Afghanistan. "The internship program is a wonderful opportunity for the government to find dedicated workers who have the skills the government needs. We hope that this innovative gender program will be an example for other ministries to follow," said USAID Mission Director Dr. Ken Yamashita.

The formal partnership follows in the wake of the immense success of USAID's program to build female capacity and help women to find full-time jobs following graduation from undergraduate institutions. "We are committed to enhancing the participation of graduated female workers in the MoF and in GIRoA to play an important role in the reconstruction of Afghanistan. We are pleased with the USAID's partnership to improve female participation in the government," said H.E. Dr. Omar Zakhilwal.

Forty-Five Interns Begin Assignments with GIRoA Ministries

On January 16, the Women in Government Internship Program team held an orientation for 30 new female interns—the largest class of interns since inception of the program in February 2010.

This was the first class of interns to be hired following the establishment of a formal partnership between the project and Kabul Univer-

sity in December 2011. As a result of the partnership, recruiting efforts on campus ramped up, resulting in more applications for positions and the most competitive applicant pool to date.

In February, another 15 interns joined, and commencing internship positions at new ministries. Two interns were placed in the Ministry of Public Health (MoPH), and two in the National Olympic Committee (NOC). Letters of Agreement were signed with both the MoPH and NOC to ensure the interns' supervisors remain engaged and the interns perform meaningful work during the internship period. Dr. Ahmadshah Saleh, Health Economics and Financing director at the MoPH, expressed his appreciation to USAID for providing female university graduates with job experience and stated that USAID's internship program is a great opportunity for employers to increase the number of female employees in governmental and non-governmental institutions. He also said that in addition to on-the-job training, the interns will also receive training workshops in management, hospital costing, and other topics delivered by MoPH personnel. This is the first time USAID has placed interns in the MoPH and NOC.

Nine Interns Graduate from the Women in Government Internship Program

During February, nine interns graduated after successfully completing six-month assignments with GIRoA. Many of the interns received full-time job offers following graduation from the program.

Of the nine interns who graduated, five received full-time job offers from the private and public sectors (two have received offers from GIRoA for positions in the MoEC, one accepted offers in the private sector and two accepted offers with donor projects). The remaining four interns are actively applying for full-time positions. The Women in Government team continues to support alumni still looking for jobs through the application and job searching process.

On February 14, a ceremony was held for the nine interns graduating interns. The interns were assigned with the Ministry of Economy (MoEC), the Afghanistan Investment Support Agency (AISA), and the project's Program Budget team. The Interns working at the MoEC gained hands-on experience in working on different aspects of the Afghanistan National Development Strategy (ANDS), including database development and improvement of Monitoring and Evaluation (M&E) strategies.

Continued on page 11

Progress Towards Meeting Objectives

Women in Government



A newly graduated intern (center) receives a certificate for successful program completion during a graduation ceremony in February 2012.

Continued from page 10

Over the course of their assignments, the interns completed training and capacity building workshops organized by the Women in Government team on a variety of topics including Information Technology (IT) skills, communications and presentation skills, interview skills, Curriculum Vitae preparation, business writing, and gender concepts. During the internship program, interns gained employment experience to prepare them for applying for full-time jobs and entering the workforce.

Gender Expert from Department of State Meets with USAID Interns

On February 8, current interns with Women in Government Internship Program met with Ms. Lida Noory of the U.S. Department of

Lida Noory of the DoS Global Women's Initiative meets with interns at the Women Involvement in Community Roundtable event in February 2012.



State's Global Women's Initiative, to discuss women's issues in Afghanistan. Discussion covered relevant gender issues in Afghanistan including challenges faced by young female professionals, politics of gender mainstreaming, and women in the business world. The interns also shared personal stories and reflections on their educational achievements and work in the Women in Government program. The majority of the meeting consisted of open discussion and "Questions and Answers" between Ms. Noory and the interns. Specifically, interns discussed problems and challenges including limited number of educat-

ed women in Afghanistan at the Master's and PHD levels to work in key positions in the ministries and other sectors, pervasive poverty, and low capacity of employees as well employers. The discussion not only illuminated factors contributing to the low number of females in key GIRoA positions, but suggested actions and solutions to increase the number of women in government who can contribute to the development process. Solutions included promoting exchange of ideas, flow of information, research and academic opportunities for women, networking among

professional women, etc. to increase the number of women in GIRoA ministries and also establish enterprises to promote businesses in Afghanistan for women.

Women in Government Internship Program Continues to Boast High Alumni Job Placement Rate

The current, overall, life of program, alumni job placement rate (the programs key success indicator) stands at 77% (27). This figure accounts for alumni who obtained full-time jobs in the public and private sectors following their internship assignments, exclusive of interns that have either left Afghanistan or self-selected out of the job search process (7). The remaining 23% (8) are currently applying for full-time jobs with support from the Women in Government team.

The internship program aims to build women's capacity to participate fully in Afghan society, development, and reconstruction activities by providing six-month internships to recent female university graduates with the goal of transitioning into full-time positions in the public and private sectors following a successful internship.

Women in Government Team Celebrates International Women's Day

On March 8, the Women in Government team celebrated International Women's Day at the project office. The celebration provided participating interns, project staff, and GIRoA partners a chance to exchange views on gender issues, express their concerns and hopes for the future. Delegates from the project office noted the resilience and strength of Afghan women and women worldwide. The key roles of Afghan women in Afghanistan development and prosperity were highlighted. During

the event, the project's Deputy Chief of Party stressed the significance of International Women's Day, the importance of education for women, and goal of increasing female representation in both the governmental and non-governmental workforce.

Job Readiness Programs Continue for Interns (IT Training Program, and Job Search Workshops) and Mentorship Program Launched

During March, IT training course on Microsoft (MS) application was launched for the new cohort of recent interns. The four-week training covers basic functions of commonly used MS programs including Word, Excel, and PowerPoint. The first session was led by the project's ICT specialist and covered basic e-mail functions in Outlook.

In January, the Women in Government team facilitated a one-day training workshop for current interns on developing and refining their Curriculum Vitae (CVs) and writing cover letters. The workshop was led by the project's Human Resources (HR) Manager. The HR training workshop was organized as part of the internship program and based on interns' assessed needs and interests to help them in their search for full-time jobs.

Additionally, in the team official launched the mentorship program. The mentorship program is a new element added to the internship experience this year to increase the interns' professional development by helping them to develop new professional relationships with project staff outside of the gender team. Since the start of Year 3, the Women in Government team has stressed this important professional concept with interns in addition to networking.

The Women in Government team celebrated the International Women's Day with the participation of the project staff and interns in Kabul in March 2012.



Progress Towards Meeting Objectives

Revenue Reconciliation Database

During the quarter, the project continued to support the Afghanistan Revenue Department (ARD) in working toward development of a new web-based Revenue Reconciliation Database (RRD) called 2012 Revenue Reconciliation System (RRS). An early prototype was created to test the design, functionality, and associated development processes for the proposed web-based system. The proposed 2012 RRS web-based system aims to change the functionality and reliability of the 2010 RRD while supporting the revenue recognition process. The 2012 RRS will include the functionality to quickly create key reports including the M29 monthly revenue report, M27 weekly revenue report, Qatya report and Baqyat report.

Revenue Reconciliation Database Working Group Develops RRD Prototype

In January, an assessment and early prototype was completed to test the design, functionality, and associated development processes for the 2012 RRS.

The prototype was reviewed with the RRD Working Group and was presented to the ARD based on input from the RRD Working Group and the Information Communication and Technology (ICT), Information Resource Management (IRM) advisor. Additional presentations of the 2012 RRS prototype will occur after review by USAID. Research conducted by the RRD Working Group, led by the project and comprising ARD officials from the planning and IT departments, contributed to completion of the assessment and prototype.

The RRD team is collaborating with contractor staff based in Washington, D.C. and conducting field studies to test and assess current and future connectivity capacity of revenue reporting offices in Kabul-based line ministries and provincial Mustofiat to the Afghanistan National Data Center (ANDC) in Kabul. Information collected during the testing will help determine the best approach to provide a sustainable, modern, application for a revenue recognition system for the ARD.

Revenue Reconciliation Database Completes Assessment of Provincial Mustofiats' Capacity for Connectivity

The RRD team studied the capacity of current and future connectivity from revenue reporting offices in provincial Mustofiats and Kabul line ministries to the ANDC at the Ministry of Communications and Information Technology (MoCIT). The application, if created with a full or partial web-based portion, requires a minimum level of network capacity not currently available in all provinces. The goal of the test-

ing and analysis is to ensure minimum connectivity requirements for accessing the RRD application interface from locations where the new web-based system will be utilized, and determine options for provinces that fall short of the minimum requirement to improve their network capacity.

On March 19, the project completed system connectivity testing in 33 provinces. Testing centered on measuring the speed of data transmission from each Mustofiat to Kabul and also evaluated type of internet services at provincial Mustofiat buildings and associated technologies, internet speed, and IT ownership. RRD advisors were looking for a minimum average latency level of 700 milliseconds (data transmission time) to determine whether or not a particular Mustofiat has sufficient capacity to handle a web-based RRD system, and obtain IRM approval.

Analysis revealed that 19 provinces (including Kabul) have an internet connection while 13 do not. Of these, four exceed the minimum requirement while 11 meet the requirement. Where internet is currently unavailable, internet connections can be established through other means such as the 3G network currently being implemented by Etisalat (2G is currently available).

To address internet connectivity issues in provinces where access is lacking, RRD advisors have a request into ARD to provide the schedule for establishing internet resources in 1391 to provincial Mustofiats to establish or improve internet access. This is an important issue as Mustofiats must meet a minimum internet connectivity requirement in order to access a potential web-based 2012 RRS application.

The RRD also met with officials from the MCIT to discuss availability of the Government Communication Network (GCN) for provinces, and as well as the District Communication Network (DCN) in relation to shifting connectivity and data traffic from the ANDC to provinces and ministries for revenue reporting departments.

Preliminary analysis validates the recommendation for a revenue reconciliation system reliance on the network connectivity report. Over the next quarter, project advisors will work with the Standard Integrated Government Tax Administration System (SIGTAS)/SOGEMA team, who are working on a revamped tax administration system, to ensure no duplication of efforts. Open communication and cooperation with other projects will help avoid overlapping system functionality issues, which would be problematic.

Project Takes a Fresh Look at Approach to Providing a Sustainable, Modern Revenue Recognition System for ARD

There are several approaches to successfully implement an improved revenue reconciliation system in including developing a web-based system or automating and enhancing the system developed and implemented in 2009. With the arrival of a new expat RRD advisor in late March, these options are being carefully analyzed along with the prototype and provincial internet capacity assessments. In the coming month, a detailed report (Gap Analysis) will be prepared evaluating each option. Variables under consideration include cost, timeframe, Afghan infrastructure (network), staffing/resource capacity and sustainability.

2012 RRS Hosting at MCIT Investigated

The project, in conjunction with ARD, investigated the use of the ANDC at MCIT to provide data center services for 2012 RRS. A proposal was received from MCIT listing various service options. The options need to be vetted along with the level of service. Once there is approval for moving forward with 2012 RRS, further work will be done to confirm services and costs associated with the use of MCIT. Cost examples include monthly reoccurring costs, including the charges for daily data backup services, and a one-time payment for set-up.

Support to the Current RRD Provided in Kabul and Provincial Mustofiats

In addition to activities related to development of a new RRD system, the project and RRD Working Group supported the line ministries to fix the current RRD windows-based system in provinces and ministries that encountered problems. Troubleshooting assistance was provided to Faryab, Nimroz, Kandahar, and Ghazni provinces as well as several line ministries in Kabul and the Independent Administrative Reform and Civil Service Commission (IARCSC).

Progress Towards Meeting Objectives

Tax Policy

The Tax Policy team continued making strong progress from the first quarter, identified obstacles and challenges to the collection of non-tax revenues collected through vehicle registration and proposed reforms recommendations to streamline and modernize current practices that will result in improvement of revenue collections in traffic related processes. In December 2011, a Working Group was formed to analyze the Vehicle Registration and Driver Licensing processes to identify areas of reform to streamline the processes and enhance collection of non-tax revenue. Vehicle registration was selected as the first non-tax area for review as preliminary studies indicated several areas to streamline the convoluted process, and potential to reduce corruption. During the second quarter, Working Group activities continued and resulting in a map of the current Vehicle Registration process and a report outlining key reforms and potential impact of implementation. The Afghanistan Revenue Department (ARD) will now coordinate with the Ministry of Finance (MoF) and Ministry of Interior (Mol) and look at implementation over the coming quarter.

Consultations Held with Afghanistan Customs Department on Sourcing Data for Vehicle Registration Reforms

The project team held numerous consultation sessions with officials from the Afghanistan Customs Department (ACD) [including the customs data system, ASYCUDA] and the Non-Tax Revenue (NTR) Directorate of the ARD, to discuss the possible direct use of customs data to reform and simplify the current vehicle registration process.

Key outcomes of the sessions included agreement from customs officials that there is

clearly an opportunity to collaborate at the Traffic Department to access the ASYCUDA system. This would enable documents presented by applicants to be matched against live ASYCUDA records. The ACD team is committed and ready to train Traffic Department (TD) staff to utilize the system. Further consultations were held with the Director of the TD and the Head of Kabul Customs to discuss the possible movement of the Kabul Customs verification function to the TD. Implementation of this reform will reduce the current timeframe of vehicle registration, to a couple days from one to three weeks. This would be the first step towards simplifying the vehicle registration process and would pave the way for further process improvement at the TD.

Map of Current Vehicle Registration Process Completed

In addition to continuing to lead and support the vehicle and Driver Licensing Revenues Reform Working Group, during the month the project completed the business process mapping for the vehicle registration in the Mol Traffic Directorate (TD) and Kabul Traffic Department (KTD).

The team visited relevant offices handling vehicle registration at the TD, KTD, and other government entities involved in the process. This effort is distinguished from previous attempts to map the process in that information was collected through physical observation of the actual process, interviews with responsible officers, vehicle owners, and brokers. This research led to production of a detailed map and flow-chart of the vehicle registration process that can be used to identify recommendations for improvement. One such improvement includes consolidating payment processes for registration fees, municipal taxes, and num-

ber plate fees, which currently are stretched across three different banks and branches. The new process map differs from previous studies in that it provides a more detailed look at the current registration process gleaned through direct observations.

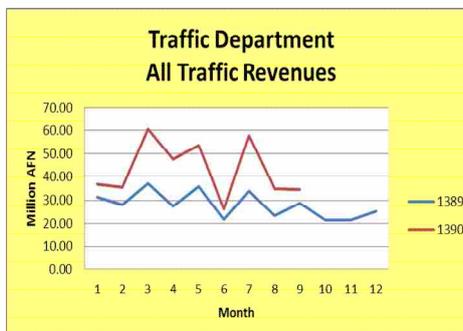
Report on Recommended Reforms to the Vehicle Registration Process Delivered to ARD

Following the Working Group's completion of the vehicle registration map and analysis of historical revenue collection data from motor vehicle registration against informed estimates of potential revenue receipts, the Working Group produced a report on their findings. The report also included recommendations for high-impact reforms of the initial vehicle registration and subsequent reregistration systems. The report was delivered to the Director General of revenue at the ARD, Dr. Zamanzai. During the next quarter, the DG will discuss reform options with officials at the MoF and Mol to obtain buy-in and determine and implementation schedule.

The report built off an interim report from early-March that also incorporated challenges faced by the Working Group in conducting their research. Challenges were faced in gaining cooperation of senior Kabul Traffic Department officials, as well as absence of Ministry of Interior (Mol) representatives in Working Group discussions. To overcome these challenges the Group collaborated closely with the ARD to garner support from the Mol. The DG will circulate the new report with officials from the MoF, Mol, and the council of ministers for further discussions, support and reforms implementation at TD.

Continued on page 14

Comparison of Traffic Department Non-Tax Revenue Collections for FY 1389 and YTD FY1390 (Million AFN)		
Revenue Category	Revenue Collected FY1389	Revenue YTD* in FY1390
Total Traffic Related	321.2	322.2
Vehicle Registration	264.1	264.5
Number Plates	45.4	34.1
Driver Licensing	24.2	23.6



For the first nine months of FY-1390, the vehicle registration and driver licensing revenues collected by the Traffic Department exceeded total revenue collected in FY1389. There is potential to increase non-tax revenue from traffic related fees and licenses by more than fifty percent through improved practices and procedures, and the selective introduction of automation. The charts are included to reflect potential for further improvements, and not reflective of the results of project work.

Progress Towards Meeting Objectives

Tax Policy

Continued from page 13

Recommendations Delivered for Developing MoF Tax Policy Capacity

At the request of USAID, project advisors prepared a concept note examining tax policy reforms from the taxpayers' perspective.

The briefing note refers to previous expert recommendations for the development of comprehensive tax policy capability within the MoF. Specifically, the note suggests an integrated approach to tax policy within a coordinating unit, rather than the incomplete and fragmented approach that currently prevails across the MoF and its subsidiaries (ARD and ACD).

Research was drawn from data from the Afghanistan Chamber of Commerce and Industries (ACCI) and results of a round table meeting on tax reform conducted in December 2011 by the National Business Agenda of Afghanistan. The round table reviewed observations from a series of meetings with over 1,200 business owners around the country and their thoughts on the tax system. Six specific problem areas were identified and five specific recommendations for tax system reforms were proposed. The note briefly reviewed aspects of the reportedly most troublesome area of the tax law, the fixed taxes regime, and associated areas of the

2009 Tax Law.

The note was intended to provide information for a possible review of project support to the MoF in the economic, revenue, and fiscal policy areas, as well as identifying the case for supporting a review of the tax laws as they affect small and medium businesses in Afghanistan.

Challenge:

Access to the internet remains the main challenge for implementing the ASYCUDA function within the Traffic Department. A high internet capacity is required to operate the system through one of the following:

- 1) VSAT internet connection- 1MB dedicated internet connection at cost of \$900 per month, providing high speed and reliability;
- 2) WIMAX internet connection- at a cost of \$900 per month, providing high speed and reliability;
- 3) DSL internet connection- quoted from Afghan Telecom at a cost of ~\$250 per month, providing high speed, with some glitches in reliability.

Per the aforementioned options, the recommendation would be to choose either Option 1 or Option 2 in order to reliably support the

TD, with minimal delays. A transition plan will need to be developed as soon as CSTC/A (ISAF Combined Security Transition Command for Afghanistan) completes networking for the TD and fiber-optic connections.

Progress Towards Meeting Objectives

Economic and Fiscal Policy

During the quarter, the project's fiscal policy advisor continued training for staff of the Fiscal Policy Unit (FPU) in the use of EViews econometric modeling and forecasting software. The training aimed to provide FPU staff with a better understanding of how to use the EViews interface at a basic level of proficiency. Following completion of the training, EViews support to the FPU was discontinued.

Eviews Training Workstream Completed—Certificates Awarded to FPU Participants and Final Report Delivered

Certificates were awarded on February 27, to the four current members of the FPU who had completed the first of four planned modules of training in modeling and forecasting using Microsoft Excel and the EViews econometric package. These certificates acknowledged completion of the training program "Introduction to EViews". Each participant was also given a copy of the course text, "Econometric Models and Economic Forecasts,"* for future reference.

Following completion of the first module, delivery of the course was suspended and the work stream discontinued as requested by USAID. A final report was produced on the delivery of the work stream. The report content includes copies of the course outline and the training materials prepared for and used in the delivery of the course.

EViews Training Program Aimed to

Improve Economic Modeling Capacity of the FPU

Robust analysis of spending and revenue collection decisions are important to inform fiscal policy decisions, promote sound fiscal management and establish a solid foundation for improving economic governance. In an effort to improve the analytical capacity of the MoF's FPU to provide such analysis, the project provided EViews training and ad-hoc technical assistance during the first two quarters of project Year 3 (FY2012). Assistance was designed to enable the FPU to provide GfRoA decision makers with more objective and balanced analysis from which to base decisions on current and prospective expenditure programs and taxation activity.

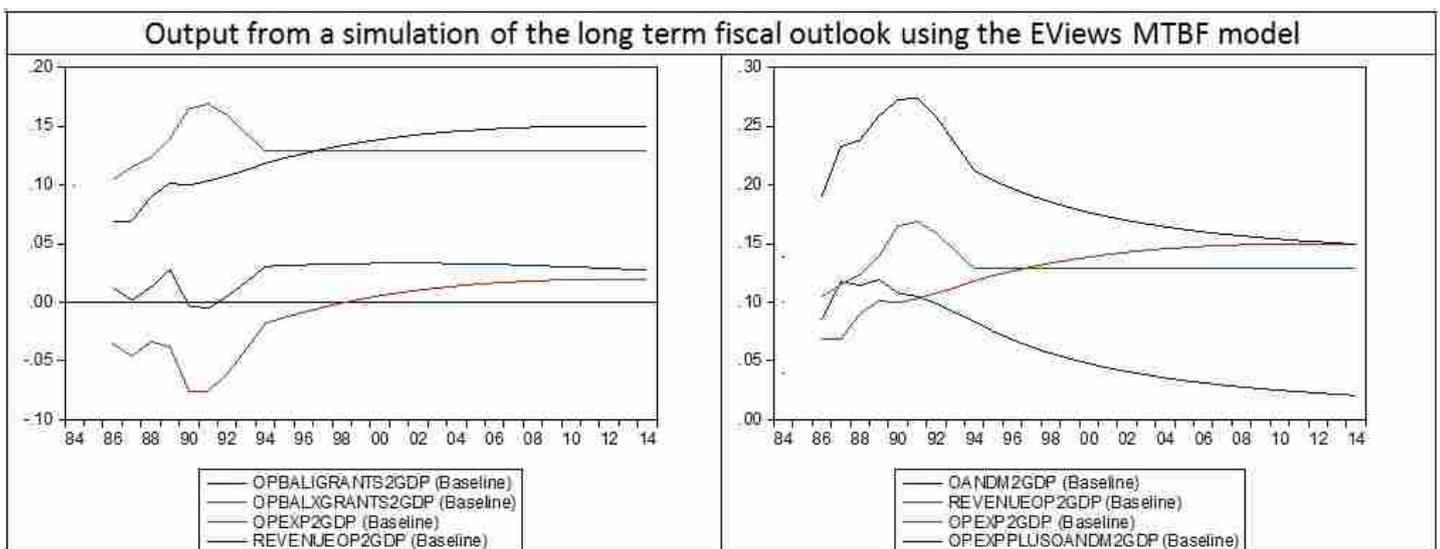
EViews training included data entry and interpretation, how to perform checks on data integrity and identify data characteristics, and how to transform data into formats suitable for modeling. The training also provided an introduction into the statistical methodology that underpins the method of "least-squares" estimation of relationships among variables. Materials covered application of this method in the estimation of cross-sectional and time-series models, using multiple variables. Curriculum also covered methodologies to judge the quality of models and significance of variables using various statistical indicators. Participants were introduced to methodologies to apply statistical tests to the residuals from regression estimations to identify deficiencies in model

specification, and how to reduce these through the introduction of dynamic variables. The aim of the curriculum was to prepare participants to be able to produce forecasts using static and dynamic regression models, and test the quality of forecasts.

The EViews training provided a foundation for the following:

- Understanding of a modern econometric software package, econometric theory, and the practical application of the EViews package;
- Methodologies to develop and apply estimation models using local fiscal and economic data, including the review and improvement of existing forecasting models and the development of new models;
- Practical work with and development of advanced macro-economic models, including the IMF version of the FPP model; and
- Interpretation and use an EViews version of the Afghan Medium Term Budget Framework model.

With EViews training coming to a close, FPU staff have been introduced to ways to improve their macroeconomic modeling and analysis skills. If these new skill are implemented, it is hoped that this will help MoF leadership improve public spending decisions, enhance domestic revenue projections, and develop tax policy options.



The above graphs are snapshots from the EViews MTBF economic modeling program. The graphs show all variables as ratios to GDP. In turn, the left graph shows operating balance including grants, the operating balance excluding grants, operating expenditures, and domestic revenue. The graph on the right adds operating and maintenance expenditures, and operating expenditure plus operating and maintenance expenditure. The graphs show historical data to FY 1398 and annual projections for the next 25 years through FY 1414.

*Robert Pindyck and Daniel Rubin Feld, 3rd Edition.

Project Activities by Regional Command

Regional Overview

In Q2 of FY2012, project activities at the provincial level centered on activities of the MoF's provincial budgeting reform program and tax administration support to Medium Taxpayer Offices (MTO). Regionally based teams in the West, East, North, and South, coordinated activities to facilitate implementation of central government initiatives in Public Financial Management (PFM) and fiscal sustainability at the regional level. The combined success of these elements is key to achieving sustainable economic growth.

The bulk of provincial activity centered on supporting the MoF to launch a comprehensive PFM training program for select provinces. The trainings consisted of four-day Consultation and Coordination (C&C) workshops and two-day Capacity Building Training (CBT) workshops. Provincial directorate officials from 18 provinces (Kunar, Nangarhar, Nuristan, Paktika, Logar, Badghis, Faryab, Sar-e-Pul, Jawzjan, Kandahar, Zabul, Ghazni, Kabul, Panjshir, Takhar, Badakhshan, Samangan, Baghlan) in six regional locations (Badakhshan, Herat, Jalalabad, Kandahar, Kabul, Mazar) attended the sessions. The purpose of the PFM course was to build capacity in key areas such as budget formulation and execution, the procurement process and procedures at the provincial level, national priority programs and transition, MoF Budget Circular (BC) and forms, and aid management. The project supported the MoF in managing event logistics events and delivery of technical training modules.



The project's tax administration team focused on supporting the MTOs in Herat, Balkh, Nangarhar, and Kandahar in improving operational efficiency and in preparations for the tax return filing season, which began on March 21. The Herat, Balkh, and Nangarhar MTOs exceeded their FY 1390 revenue collection targets of 215, 200, and 150 million AFN respectively. For FY 1390, collections at the MTOs totaled 231,054,954 AFN (for Herat), 289,414,965 AFN (for Balkh), and 213,128,620 AFN (for Nangarhar).

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

Regional Command West—Herat

Tax Administration: The project continued to support the MTO within the Herat Mustofiat, in partnership with another donor's tax reform program. For FY1390, the MTO exceeded its annual revenue collection goal of 215 million AFN, collecting 231,054,954 AFN. Additionally, the MTO saw an annual improvement in taxpayer return filings of 21%. Results to date demonstrate higher taxpayer filing compliance and increased tax revenue collections compared to previous years, and show the effect of targeted taxpayer education efforts in raising withholding tax collection.

Provincial Budgeting: The project supported the MoF to conduct C&C and CBT workshops in Herat for officials from Badghis prov-

ince, with 56 officials attending the sessions. The workshops provided an open forum for provincial officials to communicate their challenges and seek guidance from the MoF to resolve issues in an effort to create a more efficient and effective provincial budgeting process.

The provincial budgeting team also made periodic visits to provincial government officials in Herat to brief them on the status of the provincial budgeting pilot program for the 1391 national budget and the MoF's upcoming training program.



Regional Command North—Balkh

Tax Administration: The project continued to support the MTO within the Balkh Mustofiat, in partnership with another donor's tax reform program. For FY1390, the MTO exceeded its annual revenue collection goal of 200 million AFN, collecting 289,414,965 AFN. Additionally, the MTO saw an annual improvement in taxpayer return filings of 14%. Results to date demonstrate higher taxpayer filing compliance and increased tax revenue collections compared to previous years, and show the effect of targeted taxpayer education and outreach efforts.

Provincial Budgeting: The project supported the MoF to conduct C&C and CBT workshops in Mazar for provincial officials from 14 key line directorates in four northern provinc-

es (Faryab, Jawzjan, Samangan, and Sar-e-Pul) with 182 participants attending.

In Badakhshan, the C&C and CBT workshops was delivered to 152 officials from Takhar, Baghlan, and Badakhshan provinces.

The provincial budgeting officer travelled to Samangan province to meet with the Sectoral Services Director and Agriculture Director, to provide an update on the 1391 provincial budgeting pilot program.



Project Activities by Regional Command

Regional Overview continued

Regional Command East—Nangarhar

Tax Administration: The project continued to support the MTO within the Nangarhar Mustofiat, in partnership with another donor's tax reform program. For FY1390, the MTO exceeded its annual revenue collection goal of 150 million AFN, collecting 213,128,620 AFN.

Provincial Budgeting: The project supported the MoF to conduct a CBT workshop in Nangarhar for officials from Kunar, Nangarhar, and Logar with 148 officials attending. A C&C

workshop was also held for officials from Nuristan and Paktika with 87 officials in attendance.

During March, the project's East Region team conducted introductory briefing meetings with Nangarhar officials in an effort to sustain the momentum of recent provincial budgeting reform initiatives.



Regional Command South—Kandahar

Tax Administration: The installment of the Medium Taxpayer Office (MTO) in Kandahar remains a challenge. The MTO was originally scheduled for installation in July 2011, however, procurement and staffing issues stalled the installation. Eleven tax officers sat for the test and were hired, but only four showed up for the work. Those who did not report cited security concerns and said they felt threatened. Currently, the Tashkeel provides for the hiring of an additional 11 tax officers. Hiring is tentatively scheduled for May - June 2012.

Additionally, the issuance of taxpayer cases to tax officers continues to experience delays. The main reason for this is due to the fact that questions surrounding the current MTO Director's qualifications for service remains in question. The ARD Director General, National MTO Director, and the Human Resources

Director are actively working to resolve this issue. In the mean time, the MTO is not functioning as the four employees are not properly assigned, and taxpayer cases are not being worked. The advisor is working with ASI to resolve technical issues while awaiting a settlement on the Director issue.

Provincial Budgeting: The project supported the MoF to conduct CBT and C&C workshops in Kandahar for officials from Kandahar and Zabol with 90 participants attending.

During March, the project's Southeast Region budget team conducted introductory briefing meetings with Kandahar provincial officials in an effort to sustain the momentum of recent provincial budgeting reform initiatives.



Provincial Budgeting Public Financial Management Training Summary for Q2 FY 2012

Program	No	Training	Date	Location	Participating Provinces	Male	Female	Total	CBT Modules	C&C Modules	Targeted Departments
Public Financial Management (PFM) Training	1	CBT	Feb 25-28	Jalalabad	Kunar, Nangarhar, Logar	145	3	148	1.MDG, ANDS, NPPS 2.Provincial Budgeting 3.Budget Formulation 4.Budget Circulars 5.BC-1 and BC-2 Exercise 6.Costing Estimation 7.Chart of Accounts 8.Procurement 9.Procurement Case study 10.Aid Management	1.Provincial Budgeting Approach 2.Budget Flows 3.Budget Execution on the Provincial Level 4.National Priority Programs and Transition	Rural and Rehabilitation Development, Public Health, Education, Agriculture, Women's Affairs, Energy and Water, Sectoral Directorate (IDLG), Police Headquarters, Mustofiat, Economy, Public Works, Municipality, Communications and Information Technology, Judicial
		C&C	Feb 21-22		Nuristan, Paktika	86	1	87			
	2	CBT	Feb 27-Mar 1	Herat	Badghis	53	3	56			
		C&C	Feb 25-26		Badghis						
	3	CBT	Mar 10-13	Mazar	Faryab, Sar-e Pul, Jawzjan	174	8	182			
		C&C	Mar 7-8		Faryab, Sar-e Pul, Samangan						
	4	CBT	Mar 12-15	Kandahar	Kandahar, Zabol	87	3	90			
		C&C	Mar 10-11		Kandahar						
	5	CBT	Mar 21-22	Kabul	Ghazni, Kabul, Panjshir	102	10	112			
		C&C	Mar 18-19		Kabul, Panjshir,						
	6	CBT	Mar 26-29	Badakhshan	Takhar, Badakhshan,	143	9	152			
		C&C	Mar 24-25		Takhar, Badakhshan, Baghlan						
Total						790	37	827			

Q2 Training Summary

Q2 Training by the Numbers:

4,790—Person Days Trained

1,211—GIROA staff/interns trained

827—Provincial officials from 18 provinces trained in PFM

256—Females trained

31—ARD Tax Managers trained in Basic and functional Management

The project's ICT Specialist leads a presentation on Microsoft Office during the Information Technology Training for newly hired interns.



EGGI Training Summary

Table: Number of Male and Female Stakeholders Trained by EGGI, January through March 2012

Month	Work-stream ID	Workstream	GIROA Counterparts Trained	Training Topic	Location										Total by Gender			Total Days	Person Days Trained		
					Kabul		Herat		Jalalabad		Balkh		Kandahar		Badakhsha		Male			Female	Total
					M	F	M	F	M	F	M	F	M	F	M	F					
Jan-12	W1	Fiscal Policy	MOF-FPU	Views Introductory (1.1.2.2)	4	-	-	-	-	-	-	-	-	-	-	4	-	4	2	8	
	W1	Fiscal Policy	MOF-FPU	Views Introductory (1.1.2.3)	3	-	-	-	-	-	-	-	-	-	-	3	-	3	3	9	
	W3	Program Budgeting	MoM	Program budgeting and submissions for 1391	8	-	-	-	-	-	-	-	-	-	-	8	-	8	1	8	
	W5	Tax Administration	MOF	Basic and Functional Management	15	1	-	-	-	-	-	-	-	-	-	15	1	16	4	64	
	W7	Women in Government	Interns	CV & Interview skills	-	57	-	-	-	-	-	-	-	-	-	-	57	-	57	1	57
	W7	Women in Government	Interns	Orientation session for new interns	-	30	-	-	-	-	-	-	-	-	-	-	30	-	30	1	30
Feb-12	W4	Provincial Budgeting	MRRD, MoPH, MoE, MAIL, MoWA, MoEW, IDLG, MoE, Mustofiat, MoPW, Municipality, MCIT, Judicial.	Provincial Consultation and Coordination Workshop	-	-	53	3	86	1	-	-	-	-	-	139	4	143	2	286	
	W4	Provincial Budgeting	MRRD, MoPH, MoE, MAIL, MoWA, MoEW, IDLG, MoE, Mustofiat, MoPW, Municipality, MCIT, Judicial.	Capacity Building Training in Public Financial Management	-	-	-	-	145	3	-	-	-	-	-	145	3	148	4	816	
	W7	Women in Government	Interns	Orientation session for new interns	-	15	-	-	-	-	-	-	-	-	-	-	15	-	15	1	15
	W7	Women in Government	Interns	Gender concept	-	58	-	-	-	-	-	-	-	-	-	-	58	-	58	1	58
Mar-12	W3	Program Budgeting	High Office of Oversight and Anti Corruption	Accounting	60	4	-	-	-	-	-	-	-	-	-	60	4	64	1	64	
	W3	Program Budgeting	High Office of Oversight and Anti Corruption	Program Budgeting	60	4	-	-	-	-	-	-	-	-	-	60	4	64	1	64	
	W4	Provincial Budgeting	MoF, Mustofiat, MoEC, Judicial, Municipality, MoPW, MAIL, MoE, MoWA, MoPH, MEW, Police Headquarters, MCIT, Sectorial Directorate, MRRD	Provincial Capacity Building Training, and Consultation and Coordination Workshops	102	10	-	-	-	174	8	87	3	143	9	506	30	536	6	3,216	
	W5	Tax Administration	MoF	Basic and Functional Management	15	-	-	-	-	-	-	-	-	-	-	15	-	15	3	45	
	W7	Women in Government	Interns	ICT Training	-	50	-	-	-	-	-	-	-	-	-	-	50	-	50	1	50
Total					267	229	53	3	231	4	174	8	87	3	143	9	955	256	1,211	32	4,790

January through March 2012 Counterpart Meetings

Counterpart Meetings

08 meetings with Fiscal Policy GIRoA counterparts and stakeholders.

55 meeting with Tax Policy GIRoA counterparts and stakeholders.

88 meetings with Program Budget GIRoA counterparts and stakeholders.

36 meetings with Provincial Budget GIRoA counterparts and stakeholders.

05 meetings with Tax Administration GIRoA counterparts and stakeholders.

07 meetings with RRD GIRoA counterparts and stakeholders.

26 meetings with Women in Government GIRoA counterparts and stakeholders.

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

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