



USAID | **AFGHANISTAN**
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Economic Growth & Governance Initiative

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USAID/EGGI’s vision is to support GIROA’s capacity to develop and sustain a market environment that supports responsible economic management, private sector-driven growth, investment promotion, access to financial services, and job creation.

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Key GIROA priorities over the quarter included negotiations with the International Monetary Fund (IMF) on the Extended Credit Facility (ECF), Kabul Bank resolution efforts and implementation of regulatory reforms to improve Afghanistan's business enabling environment. EGGI worked closely with the Ministry of Finance to advance negotiations over the ECF, which is critical to supporting budgeting reforms and generating long-term revenue. Throughout the quarter, the Minister served as a leader in GIROA's pursuit of fiscal sustainability. With EGGI support, the MOF pursued this broader objective through renewed focus on effective budget planning and revenue collection. As the security transition from ISAF to Afghan control gathers pace in the run-up to 2014, Afghan civilian governance will similarly need to assume greater responsibility, which will rely less on donor assistance and require more fiscal independence as a result of effective budgeting and increased revenue.

In support of the Kabul Bank resolution effort, EGGI provided guidance to DAB and its appointed Conservator to strengthen the management of Kabul Bank in critical functional areas, and develop a detailed resolution program. The goal of EGGI assistance in this area is to construct a more profitable, better managed bank which will be attractive for potential buyers and maximize loan recovery.

EGGI continued to support GIROA efforts to reduce the regulatory burden on the private sector and stimulate business expansion. Through support to the Ministry of Commerce and Industries' Doing Business Better Initiative (DBBI), EGGI provided guidance to five technical Working Groups charged with implementing reforms in target areas to improve Afghanistan's business climate, spur economic growth and attract foreign investment. The goal of the DBBI is to improve Afghanistan's business enabling environment and as a result, improve Afghanistan's Doing Business Ranking of 167 (out of 183) in the World Bank's Doing Business Report.

Quick Q2 Recap: Notable Areas of Progress

Component 1: Economic Policy

- 1) Policy Support:** MOF negotiations with the IMF on the 3-year ECF program.
- 2) Program Budgeting:** Assisted 37 budgetary units to complete program budgets for fiscal year 1390. Conducted workshops for over 250 provincial officials around the country to enhance provincial inputs into the national budget.
- 3) CAO:** Supported CAO to lobby for passage of a strong Audit Law in Afghanistan to give CAO independence to act as a true Supreme Audit Institution.
- 4) Tax Administration:** Supported the MTO's in Herat and Mazar to exceed 1389 revenue collection targets; Implemented the MTO in Jalalabad.
- 5) Revenues:** Helped the MOF/FPU complete the Revenue projections model and user manual to project expected revenue flows for GIROA over the forthcoming fiscal year.

Component 2: Financial Sector Development

- 1) Kabul Bank Resolution:** Supported development of a detailed resolution program and prepared materials for implementation of an agreed roadmap, along with measures for improving performance of the bank.
- 2) Legal and Regulatory:** Prepared resolutions for Supreme Council approval, providing a foundation for proceeding with the execution of the resolution plan for Kabul Bank.
- 3) Accounting & Financial Statements:** Helped DAB successfully recover \$35 million belonging to the Bank but unaccounted for in financial records since 1384 (2006).
- 4) Monetary Policy:** Launched the first Survey of Regional Economic Activity in the DAB/East Zone. Initiated statistics training for MPD Staff.
- 5) Zone Branch Development:** Supported DAB/West to launch the Financial Sector Forum Series.

Component 3: Private Sector Development

- 1) Commercial Legislation:** Submitted a new draft Bankruptcy law to MOCI. A new law will hopefully increase Afghanistan's "Closing a Business" DBI indicator.
- 2) Enabling Environment Strengthening:** Supported MOCI launch DBBI Working Group activities to implement regulatory reforms.
- 3) Private Sector Development:** Supported the Herat PSD-SC draft an Implementation Plan for Private Sector Development.
- 4) Business Registration:** Developed a new Business Registration Certificate and conducted data management training with ACBR staff.
- 5) Telecom Sector:** Prepared a Chart of Accounts for ATRA to record financial transactions in accordance with internationally accepted accounting standards.

Key Q2 Objectives in Line with Intermediate Results

IR 1.2.1 Improve Economic Policy and Governance Economic Policy

Fiscal Policy Unit: Support the FPU's participation in the Macroeconomic Working Group, and support and analysis for critical MOF functions, including the development of the medium-term expenditure framework (MTEF), macroeconomic projections, revenue and expenditure forecasts, and policy analysis and simulations.

Policy Support to the MOF: Assist the Minister of Finance undertake a balanced review of bi-lateral donor programs and agreements; Facilitate MOF implementation of the IMF ECF (Extended Credit Facility) macroeconomic reform program; Facilitate MOF implementation of ARTF/World Bank budget support reform programs.

Revenue Reconciliation: Continue roll-out of the Revenue Reconciliation Database in line ministries and implement automation of the annual GIROA Qatya (Annual Financial Statement on Revenue).

Program Budgeting: Provide ongoing mentoring and coaching support to all assigned GIROA budgetary units to revise their program budgets to reflect decisions made during the MOF Budget Committee Hearings.

Provincial Budgeting: Support provincial directorates so provincial priorities are better reflected in Afghanistan's national core budget; improve the coordination of budget related activities among key provincial GIROA and donor stakeholders.

Tax Administration: Support ongoing Medium Taxpayer Office (MTO) installation in Herat; Support the installation and deliver technical assistance and capacity building to the MTO in Jalalabad and Mazar.

Control and Audit Office: Support capacity building at the CAO through technical audit training and hands-on assistance in conducting on-site audits; support CAO management lobby for an effective National Audit Law.

IR 1.2.2 Enhance Financial Sector's Contribution to Economic Growth Financial Sector Development

Accounting and Financial Management: To implement the computerized Core Banking System (CBS) at additional branches and continue to merge the database of regional branches with the Head Office database to capture transactions in one database.

Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance: To train staff of the Financial Supervision Department (FSD), and support on-the-job training to the examination team at a large commercial bank.

Legal and Regulatory Drafting and Promotion/Support to Office of General Counsel: Support the legislative process related to Law of Banking and DAB Amendments. Provide ongoing operational support and capacity development to the Office of General Counsel, including guidance on Kabul Bank resolution.

Monetary Policy, Statistics and Market Operations: To develop the analytical capacity of the Monetary Policy Department (MPD) of DAB, and to significantly expand the coverage of the MPD's regional activities by implementing the Survey of Regional Economic Activity in the Jalalabad East Zone office.

Zone Branch Development: Implement core Central Bank functions in the DAB East/Zone and establish the Financial Sector Forum Series in the DAB/West Zone.

Kabul Bank Resolution: Support DAB and its appointed Conservator to strengthen the management of Kabul Bank in critical functional areas, and support development of a detailed resolution program.

IR 1.2.3 Improve Private Sector Growth Private Sector Development

Business Registration: Support ACBR staff training, to improve customer service and data quality. Make improvements to ACBR technology and processes. Support MOCI to streamline and simplify the ACBR registration process.

Commercial Law: To draft, amend or recommend implementing regulations to laws that promote investment and economic development in Afghanistan. The laws would include the Bankruptcy Law, Law on Corporations and Limited Liability Companies, Agency Law, Contracts Law, among others.

Telecom Sector: Support ATRA to improve the Telecom Regulatory framework and prepare ATRA to bring next wave telecom services to Afghanistan, including 3G and Wi-MAX. Assist ATRA in disbursement of funds held within the Telecom Development Fund. Provide ATRA and the MCIT with financial statements/audit assistance.

Policy Support to MOCI: Improve factors that impact World Bank's Doing Business Indicator rankings through support to the Doing Business Better Initiative technical Working Groups.

Private Sector Strengthening: Support the Directorate of Economy in its role as enabler of private sector development at the provincial level. Implement the PSD Strategic Plan in Balkh province and draft a PSD Implementation plan in Herat.



Over 30 representatives participated in the January 25 monthly Balkh PSD-SC meeting, chaired by the Directorate of Economy. Major focus at the meeting was centered on the status of PSD Strategy implementation and actions to overcome identified challenges. Since EGGI involvement, participation and output of the PSD-SC meetings have grown considerably.

Progress Towards Meeting Objectives

Component I: Economic Policy



EGGI delivers an encore session of the Principles of External Auditing. This is the first class in the six-course foundation level auditing series. The series is designed to promote a standard auditing methodology across the CAO and educate CAO staff on internationally accepted auditing principles.

The strategic objective of EGGI's Economic Policy component is to improve capacity within the Afghan Government to effectively formulate, implement and manage policies to support economic growth, manage public expenditures and improve domestic revenue collection in order to support market led job creation and service delivery to the Afghan population.

During the quarter, EGGI's Component I focused on efforts to help GIROA achieve **fiscal sustainability and independence**. Concerning budget support, EGGI's program budgeting team, working together with the Ministry of Finance (MOF), assisted **37 budgetary units to complete program budgets for the 1390 fiscal year**. EGGI also helped the units to complete the initial stages of budget execution through submission of **financial and procurement plans**.

At the provincial level, MOF with EGGI support conducted **provincial budget reform training for 250 representatives from seven provinces** in Afghanistan's central region. EGGI advisors operating in the field also held periodic briefings for provincial officials across the rest of the country, and provided province-by-province assistance, including helping Nangarhar provincial officials to update the **provincial development plan**.

On **domestic revenue mobilization**, EGGI continued expanding on the prior year's implementation of the Medium Taxpayer Office (MTO) structures in Herat and Mazar, and opened the MTO in Jalalabad. At the start of

the tax filing season on March 21, the Herat MTO had collected almost **150 million AFN** each beating its collection target by 50 million AFN. Also, the MTO commenced full taxpayer audits; it is anticipated that full audits should **mobilize revenues by an additional 20 to 30%** during tax year 1390. In Mazar, the MTO **surpassed its revenue collection goal by more than 30%** for year 1389. To reach a broader audience of taxpayers with higher-quality service, EGGI assisted the Mazar MTO to reestablish its Taxpayer Service Center, and provided management training for supervisory staff. The MOF expanded its tax-collection footprint in eastern Afghanistan by **establishing the MTO for Nangarhar province** in February 2011, which is expected to replicate the Herat and Mazar MTO paradigms.

Further on the revenue front, EGGI helped the MOF's Fiscal Policy Unit to provide a user manual for the **Revenue Projections model**, which will provide continuity for use by new personnel. The model assists in projecting expected GIROA revenue flows over the forthcoming fiscal year, utilized for both revenue performance management and by the Budget Department to establish expenditure ceilings.

EGGI also worked to enhance GIROA's **revenue management**. Following installation of the **Revenue Reconciliation Database (RRD)** in all 34 provinces in the prior quarter, EGGI installed the system in an additional 10 central line ministries. Expected to be transitioned to MOF control in April 2011,

this database enables the Afghan Government to acquire real time information on the amount of domestic revenues collected across the country thereby helping to improve financial planning, control and management of public resources.

EGGI worked closely with and provided advisory support to the Minister of Finance to advance negotiations on the new IMF program for Afghanistan, which will prove critical to support budgeting reforms and generate long-term revenue for Afghanistan. The new three-year **Extended Credit Facility (ECF)** program is the successor to the Poverty Reduction Growth Facility (PRGF) and will run from 2011 to 2013. The program will build on the PRGF by focusing GIROA reform efforts on domestic revenue mobilization, better public financial management and reforms in the banking and financial sector.

To support implementation of key ECF benchmarks including the **Value-Added Tax**, the Minister of Finance, with EGGI support, established the Tax Policy Working Group., Supporting these revenue-generating efforts, EGGI also helped reduce the debt burden on Afghanistan by canceling long-term foreign debt, easing pressure on the domestic budget.

Efforts to improve **transparency and accountability** of GIROA entities are key strategic objectives of EGGI's support to the Control and Audit Office (CAO), the government's external auditing arm. EGGI delivered encore presentations of its successful course, **Principles of External Auditing**, to CAO auditors and auditors from various ministries. EGGI also completed the first two modules of the CAO Audit Manual (CAM), which will serve as the basis for new, standards-based CAO audit methodology to guide CAO auditors.

Building on the classroom training and standardized guidelines, CAO has also engaged in on-site audits with EGGI in support. These visits to government ministries enable CAO to determine strengths and flaws in the ministries' financial management systems, which are key to effective budget execution, and revenue monitoring and reconciliation.

EGGI's assistance to CAO and USAID on the drafting of the **National Audit Law** has yielded legislation that is more compliant with international standards, customized to local Afghan conditions. In early March 2011, the Afghan Cabinet approved a new version of the law.

Go to Page 15 for additional Component I details.

SPOTLIGHT

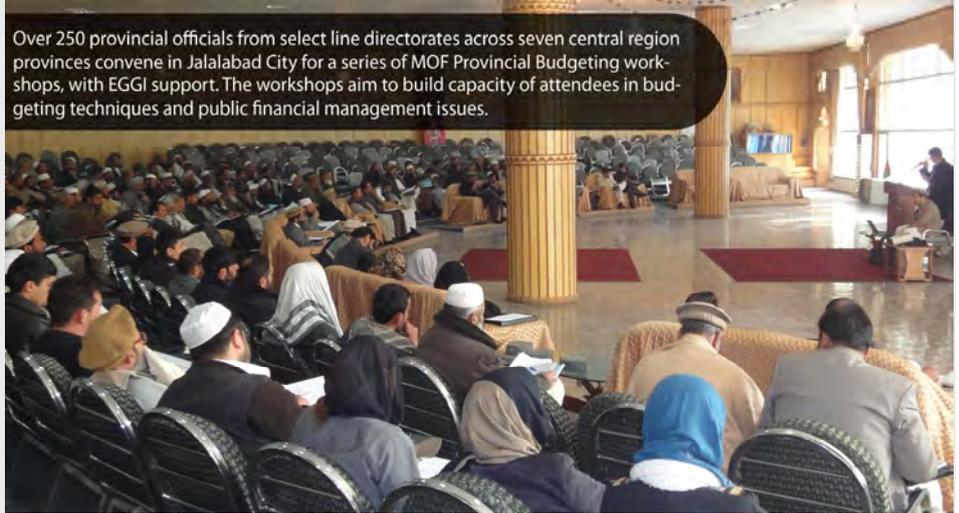
On Program Budgeting to Improve Spending Execution

Program budgeting is a significant public financial management reform implemented by the MOF across all 51 budgetary units and a major component of the government's public financial management roadmap resulting from the July 2010 Kabul Conference. Implementing program budgeting in Afghanistan enables the government to improve its aggregate fiscal discipline, efficiency of budget decision-making and the operational or technical efficiency of delivery of government services to the citizens.

During Q2, EGGI accomplished several key milestones including assisting **37 budgetary units to complete/submit program budgets for the 1390 fiscal year** to MOF on time and complete the initial stages of budget execution through submission of financial and procurement plans. To help **improve budget execution rates**, EGGI initiated a series of briefing sessions on the approved 1390 budget for assigned budgetary units and Line Ministries in the largest sectors of the development budget. Sharing detailed program budget information with Line Ministries and provincial directorates at the start of the approved budget execution period is an important step in executing the development budget.

In February, EGGI held a **Lessons Learned workshop** for the MOF Budget Department to identify lessons learned from the 1390 budget preparation process and apply potential improvements for the next budget cycle. The workshop was a step towards improving communication between the units and to move towards a more effective MOF-led budget process.

Over 250 provincial officials from select line directorates across seven central region provinces convene in Jalalabad City for a series of MOF Provincial Budgeting workshops, with EGGI support. The workshops aim to build capacity of attendees in budgeting techniques and public financial management issues.



EGGI's provincial budgeting activities focused on continued training delivery and hiring of **provincial budgeting officers**. The overall goal is to increase provincial input into the national budget process to better reflect local priorities. To date, five provincial budgeting officers have been hired for deployment to key economic centers – (two for Jalalabad, one each for Herat, Helmand and Kandahar). EGGI expects to have the remaining three officers (one each for Mazar, Herat and Helmand) hired by mid-April.

To streamline assistance, EGGI worked with the MOF to prepare a revised Workplan, based on the Lessons Learned workshop. The plan focuses MOF provincial budgeting resources on budget formulation in targeted line directorates (Education, Public Health and Rural and Rehabilitation Development) across the 34 provinces rather than intensive training programs for select provinces. Im-

proved coordination between the MOF and Line Ministries, and Regional Commands and PRTs is also a priority for 2011.

In January the MOF conducted a provincial budgeting reform training program for over 250 officials from seven central region provinces. The six-day workshop focused on building capacity of the provincial line directorates in budgeting, and consultations with line directors on provincial budgeting and public financial management issues.

During open discussion and question and answer sessions, participants raised pertinent issues primarily related to slow processing of allotments, delayed development and operating budgeting allocations, low salary levels and the need to effectively utilize budgetary resources to address local development needs. The week-long program represented the first ever workshop the MOF convened for officials from the central region. Follow-up technical budgeting training and assistance in preparing operating and development budget estimates for the 1391 budget process is planned for the Central Region provinces beginning in April 2011.

Finally, EGGI regional officers briefed provincial officials from Laghman, Nangarhar and Ghor on the MOF's **2011 provincial budgeting reform program**. The briefings provided an opportunity for the EGGI officers to establish working relationships with key provincial officials (Mustofi, Economy Director, line directors) in their regions who will be responsible for preparing 1391 budget estimates for Line Ministry consideration. These types of sessions aim to improve coordination between the MOF and provincial directorates.

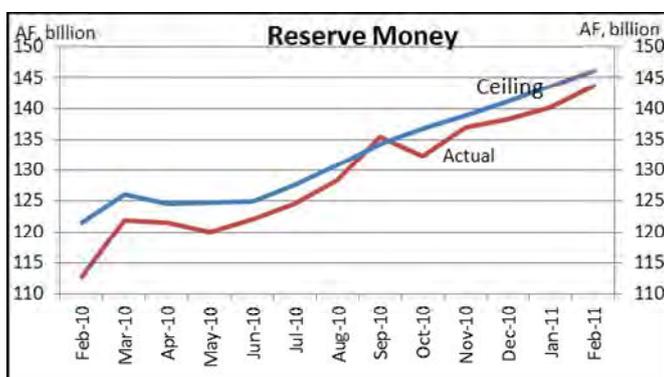


A participant from a Ministry of Finance (MoF) working group presents challenges from last year's 1390 budget process during the February 21 MoF Lessons Learned Workshop.

Component 2: Financial Sector Development

EGGI's Financial Sector Development advisors contributed to efforts to advance modernization and professionalization of Da Afghanistan Bank (DAB), the Central Bank of Afghanistan. During the final quarter of assistance to DAB, there were accomplishments and progress across all EGGI Component 2 workstreams.

DAB's **Monetary Policy Department (MPD)** made progress its capacity to support and understand influencing of monetary policy toward the objective of price and exchange rate stability. During the quarter, DAB maintained good control over reserve money, below IMF targets, and slightly expanded the level of capital notes outstanding. Both foreign exchange and interest rates displayed considerable stability during the quarter, indicating consistency between DAB communications and policy actions. However, in spite of controlled money supply growth, inflation rose above DAB's desired target range. The MPD monitored the price developments and determined the causes to be primarily related to temporary disturbances and inflation in trading partner countries – all reasons beyond its control.



EGGI's Zone Branch Development and Monetary Policy workstreams made progress in raising the profile of DAB outside of Kabul and working towards broadening the sources of economic data (both objective and anecdotal) used to formulate policy. Specifically, EGGI assisted DAB in strengthening the functionality of DAB Zone offices in Herat and Jalalabad. DAB/West launched the successful **Financial Sector Forum** to bring together stakeholders to discuss key financial sector issues. In February, **DAB/East completed the first Survey of Regional Economic Activity (SREA)**. These activities contribute to strengthening the effectiveness of the **research and analytical functions in DAB's Zone offices**, enabling them to provide timely data to the MPD in Kabul to better inform monetary policy decision-making.



Representatives from Herat commercial banks, money service providers, the Governor's Office, and other stakeholders discuss cash management and bank note distribution during the second DAB West Zone Financial Sector Forum in January 2011.

In operations, the EGGI-supported **Core Banking System (CBS)** program expanded the number of branches utilizing the online transaction processing system to 38. Implementation of the CBS has greatly improved the efficiency and accuracy of transaction posting, access to customer account information, and the timely reporting of essential financial statements.

Also, EGGI assisted DAB's Accounting Department in the critical area inter-branch and interbank transaction reconciliation. Often an area of potential losses, timely, complete reconciliation of entries is important for proper control of accounts. With EGGI technical oversight, DAB has completely **reconciled 29 branch accounts** with the Head Office that had been outstanding for seven years. Finally, EGGI helped **DAB recover \$34.5 million** through reconciliation of an international correspondent bank account used six years ago for processing payment of donor grants.

In **Financial Supervision**, EGGI provided on-the-job training to the onsite examination team as it reviewed the unique risk characteristics of construction lending and mortgage financing in a large commercial bank. This training and guidance during the examination strengthens the ability of the FSD to more effectively monitor and regulate the activity of commercial banks in Afghanistan. Daily training sessions during the examination addressed techniques for evaluating proper underwriting standards in

types of lending – construction and mortgage financing – which are new to Afghanistan, along with analysis of bank earnings, liquidity, and capital adequacy. EGGI assistance addressed discussions of the proper classification of these types of loans to ensure the risk to the bank's capital is properly reflected.

EGGI also supported the **Kabul Bank resolution** effort. Working with officials from the MOF and IMF, EGGI collaborated with stakeholders to craft a more definitive **resolution plan**. EGGI provided critical insight into legal interpretation and nuances of the resolution process. The EGGI Legal Advisor prepared many resolutions for the review and approval of the Supreme Council during its quarterly meeting in March which provided a foundation for proceeding with the implementation of the resolution program.

EGGI supported DAB and its appointed Conservator to **strengthen the management of Kabul Bank** in critical functional areas, including loan recovery, liquidity management, profitability analysis, streamlining of the branch systems, product pricing, and asset-liability management. The goal of assisting in the development and implementation of the resolution program is to construct a more profitable, better managed bank which will be attractive for potential buyers. Ensuring continuity of the existing operation and minimizing further "runs" on the bank will lessen the requirement of additional government funding to meet depositor withdrawals.

SPOTLIGHT

On Deepening Statistical and Analytical Capabilities at DAB

EGGI continued efforts to develop capacity of DAB's Monetary Policy Department (MPD) to conduct sound monetary policy. Although the IMF provides considerable policy and high-level guidance, MPD has full responsibility for the day-to-day tasks of determining and implementing monetary policy, including analyzing economic conditions, preparing projections of macro variables, reporting to the Executive Board and Supreme Council and identifying the appropriate policy stance and taking action in the weekly foreign exchange and capital note auctions. By successfully performing these tasks, MPD can exert significant influence towards maintaining price stability and reducing exchange rate volatility, both of which contribute to sustainable economic growth and lower unemployment.

In support of these objectives, EGGI activities during the quarter in the focused on **expanding the collection economic data, increasing DAB's outreach activities, and strengthening staff analytical skills.**

Currently, monetary policymakers have limited information on which to base their policy decisions. The CPI release is the most regular and reliable piece of data, but even it is criticized as being an inaccurate measure of inflation. Other data such as the GDP release comes with a long lag and only provides an annual figure. No labor supply, employment or unemployment data exists. To address this, the EGGI supported **Survey of Regional Economic Activity (SREA)** provides timely, regular, anecdotal information on conditions throughout the economy. It collects information on spending, inventories, employment, prices, output, and investment of all major sectors of the economy. The report of the survey results complements existing hard data by providing causes and rationales for changes in data. It may also serve as a leading indicator for prices, output and labor markets, signaling movements before they show up in other releases. The SREA has be-

The Monetary Policy Department (MPD) Deputy Director General of the Real Sector discusses the functions of MPD and monetary policy at the Jalalabad Central Bank Zone office.



come a tool of the MPD in Kabul to better inform monetary policy decision-making.

During the quarter, EGGI conducted the **first SREA for the DAB/East Zone** and continued previously launched SREA efforts in Herat and Kabul. In February, EGGI supported a DAB/MPD mission to the Jalalabad office. During the visit, officials from the MPD in Kabul delivered presentations the functions of MPD and technical aspects of the conduct of monetary policy. The main focus of the trip was to assist DAB/East staff in reviewing results from the SREA, and provide training and guidance in drafting the associated report. Following workshops on technical writing, survey analysis and interpretation, and data organization, the first Jalalabad survey report was completed and presented to the Zone Director for review.

As part of EGGI's efforts to develop the analytical capacity of MPD and MOD staff, advisors began a **10-week program of training in applied intermediate statistics.** More than a general statistics course, this training will provide the tools and knowledge to enable staff to contribute to work that is currently performed by only the Deputy Directors General. Enabling staff to perform analyses, this

training will improve both the quality and quantity of research being done in the departments which will lead to a more solid understanding of economic conditions.

"This statistics training will be a huge help to our staff and increase their productivity because many do not have advanced skills using Excel and performing complex calculations."

DG Market Ops Dept.

EGGI also provided a wide range of technical assistance to MPD and MOD during the quarter. This assistance serves to both support the departments' current activities and act as a model for their future work. Some examples of higher-level assistance included **analyses of the factors contrib-**

uting to the recent surge in inflation, the preparation of cost projections of monetary policy actions during 1390, a comparative analysis of the costs of selling capital notes versus intervening in the foreign exchange market, analysis of Kabul Bank deposits in the wake of the crisis, and the development of an interest expense worksheet to guide discussions during capital note auctions. Advisors also continue to support the production of the **Quarterly Bulletins.** Finally, EGGI contributed to the development of the IMF's Financial Programming model, the preparation of Supreme Council presentations, and the drafting of the Governor's Weekly Report. Through each of these products, advisors demonstrate the desired level of professionalism and analytical rigor that should be present in the output of the departments, thus forming the basis for capacity development.



EGGI Statistics Advisor assists DAB Jalalabad staff with analysis of the results from the first Survey of Regional Economic Activity in Nangarhar.

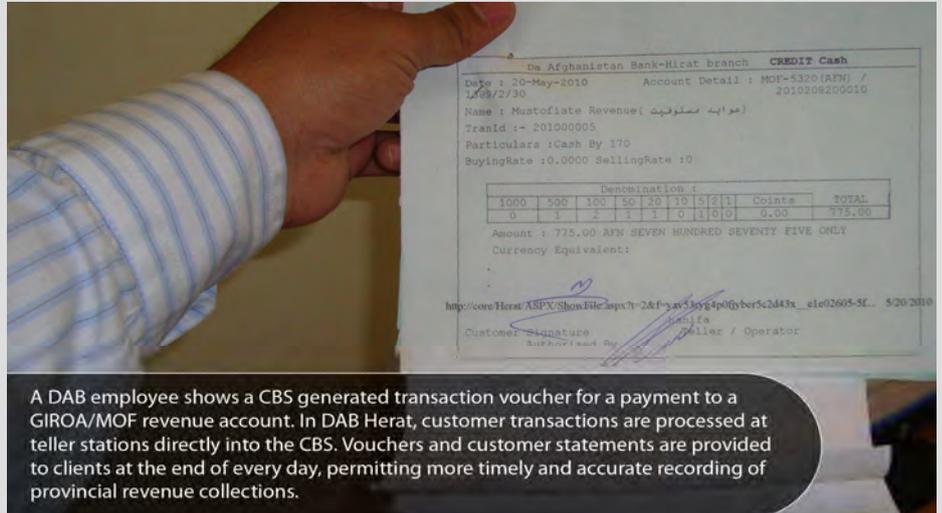
SPOTLIGHT

On Improvements in Service Delivery, Transparency, and Financial Management as a Result of DAB's Core Banking System

In 2006, Da Afghanistan Bank, under a USAID funded modernization program, commenced implementation of an automated banking and accounting software package, the Core Banking System (CBS). Five years later, CBS is delivering its intended value. From client service delivery improvements to timely, accurate production of consolidated DAB financial statements, CBS is yielding tremendous benefits to DAB and its clients.

Currently, the CBS is implemented in DAB's Head Office and 38 provincial capital and border branches. This achievement captures over **95% of total client transactions serviced by DAB**. In addition, CBS branches account for over 95% of the consolidated DAB balance sheet, effectively ensuring that a large majority of DAB's assets and liabilities are managed through the automated system. The fact that DAB was able to produce its consolidated financial statements for FY 1388 in record time is attributable largely to sustained progress in CBS operations. Moreover, DAB's Head Office has real-time "desktop access" insight into the accounting records of all CBS branches.

On a given day, DAB processes an average of **6,000 client transactions through CBS**. A majority of these transactions are government



A DAB employee shows a CBS generated transaction voucher for a payment to a GIROA/MOF revenue account. In DAB Herat, customer transactions are processed at teller stations directly into the CBS. Vouchers and customer statements are provided to clients at the end of every day, permitting more timely and accurate recording of provincial revenue collections.

revenue collections and payment transactions for commercial banks - two of DAB's core clients. Processed transactions are posted directly to CBS, with the customer receiving an automatically generated transaction voucher as proof of payment. At the end of the day, an account statement and a copy of all vouchers are provided to clients. This practice has permitted successes in improved GIROA revenue posting and reporting at provincial Mustofiats, an activity supported by EGGI under the Revenue Reconciliation workstream. Close cooperation between Mustofiats and DAB has yielded more timely and accurate revenue postings.

To support these improvements across the country, EGGI continued CBS installation at the **Zabul Branch and two branches in Kabul**. To ensure continuity in advance of the end of EGGI's assistance in this area, EGGI **transitioned day-to-day management of the system to DAB employees**. This is a positive step that will not only allow DAB to have full command of the system's technical aspects but will also expedite the process of amendments and changes recommended by DAB management.

It is hoped that DAB will continue the process of merging all CBS branches into an integrated database, whereby real-time inter-branch payments are possible. Currently, six DAB hub branches are merged with the Head Office database. This CBS merger is a significant benefit to the Government, permitting **same day provincial revenue transfers to the MOF Treasury Single Account (TSA)**. In the last seven months, over **1,000 same-day transactions totaling 20.8 billion AFN** were transferred through the CBS to the MOF's TSA account, permitting improved fiscal operations with respect to revenue collections and expenditure management.

Also, DAB, with EGGI support implemented the CBS Payroll module in the Head Office. This enables DAB's Accounting Department to manage salary disbursements and tax withholdings, along with other remunerations efficiently and accurately. DAB also implemented the CBS Treasury Module in the MOD, enabling a consolidated view of foreign currency reserves, including details of funds invested, projected earnings, asset mix, and future positions.



A CBS Operator at DAB's Zabul branch posts a check using the Core Banking System (CBS). EGGI is supporting DAB to implement the CBS in all branches to eliminate manual processes, minimize potential for errors and corruption, and improve the accuracy of transactions.

Progress Towards Meeting Objectives

Component 3: Private Sector Development

Participants at the "Starting a Business" Working Group meeting discuss the World Bank's recently released 2012 Survey. EGGI supports regular Working Group meetings and is providing guidance and assistance in survey completion.



During the second quarter, USAID/EGGI saw progress in several areas under the Private Sector Development component. EGGI took steps to improve the regulatory environment for business operation through support to the "Doing Business Better Initiative." EGGI also built on momentum to mobilize private sector growth in telecom, and made significant progress at the provincial level in efforts to support Private Sector Development Strategic planning in Balkh, Herat and Nangarhar.

In January 2011, EGGI supported the Ministry of Commerce and Industry (MOCI) to kick-off technical DBBI Working Group meetings. The ultimate goal of this activity is implement reforms to improve the climate for doing business and bolster Afghanistan's ranking in the World Bank's *Doing Business Report*.

In March, the World Bank/IFC released the surveys for *Doing Business 2012*, and requested EGGI support to assist with distribution to appropriate contributors. EGGI is coordinating with DBBI Working Groups, Donors, and key stakeholders to select contributors and deliver trainings on survey completion. All surveys will be returned by the April 30 deadline.

EGGI continued efforts to streamline business registration processes at the Afghanistan Central Business Registry (ACBR). To this end, EGGI supported MOCI to continue discussions with the MOF on integration of Taxpayer Identification Number issuance upon business registration. EGGI also supported the creation of a Business Registration Form for distribution to newly regis-

tered business. This will help reduce instances of fraud in ACBR documentation.

To reform the commercial legal framework for promoting investment and economic development in Afghanistan, EGGI reviewed and provided guidance on several key pieces of legislation. Following a series of consultative sessions with private sector and GIROA stakeholders, EGGI produced a revised version of the Bankruptcy Law and socialized it with MOCI and relevant DBBI Working Groups. It is hoped that passage of a new law may improve Afghanistan's ranking in the "Closing a Business Indicator." EGGI also shared draft amendments to the Contract Law and Agency Law with GIROA counterparts and completed supplementary amendments to the Corporation and Limited Liability Company Law, now ready for submission to the MOJ.

In Telecom, EGGI advanced efforts to extend telecom services to citizens throughout Afghanistan and in making internet access more affordable.

In January, the Afghanistan Telecom Regulatory Authority (ATRA) and the Ministry of Telecommunications and Information Technology (MCIT) awarded subsidies to telecom companies to fund telecom network expansion into 36 rural areas of Afghanistan, during the 4th Telecom Development Fund (TDF) tender process. Upon completion of these projects, access to modern telecom services will reach an additional 50,000 citizens.

EGGI supported ATRA to initiate Spectrum Valuation Consultancy Advisory Services for Third Generation (3G) and Worldwide Interoperability for Microwave Access

(WiMAX) in Afghanistan. The project will produce an assessment of Afghanistan telecom sector readiness for 3G and WiMAX service capabilities, as well as recommended frequency spectrum prices.

EGGI continued reconciliation of ATRA bank accounts balances. This activity is one of the preliminary yet important steps towards developing the financial statements of ATRA which have been pending since ATRA's inception. Further, the reconciliation of the bank balances will help determine the correct revenue collections over the periods towards the Spectrum Fund and Telecom Development Fund (TDF).

Responding to the near absence of internal controls, EGGI adopted a continuous but gradual process for developing ATRA's accounting and financial management systems. Accordingly, EGGI guided ATRA management to introduce the physical verification of cash at regular intervals, prepare bank reconciliation statements for each of the ATRA and TDF bank accounts, and file payment vouchers in sequence. EGGI also completed preparation of a Chart of Accounts (COA) to commence recording financial transactions in accordance with internationally accepted accounting standards.

EGGI also advanced efforts to help AfTel make progress in its expansion of the Optical Fiber Cable (OFC) ring network within and outside of Afghanistan, including interconnections with neighboring countries. During Q1, the final cross border interconnect with Turkmenistan was completed and EGGI worked during Q2 to support final meetings and negotiations. The ring network and the direct connection with the neighboring countries will facilitate enhanced voice, data, Internet and video capabilities, while also providing additional revenues to AfTel.

EGGI supported Afghan Telecom (AfTel) in efforts to lower the cost of internet in Afghanistan through negotiations with Pakistan's Wateen Telecom to obtain access to their subsea cables in the Arabian Sea. Direct access to the subsea cables could lower the cost of internet by as much as 80%. Such a reduction in internet costs across the private and public sectors may boost private sector development initiatives and support plans for e-government applications under the E-Afghanistan section of the Kabul Conference. EGGI provided guidance to MCIT and AfTel during negotiations and led efforts to develop a business case to justify the purchase.

Go to Page 18 for additional Component 3 details.

Gender Mainstreaming

EGGI Supports Women to Obtain Employment with GIROA

Consistent with USG objectives to promote gender quality and opportunities for Afghan women, EGGI developed the Women in Government Internship Program (WIGIP) to facilitate the advancement of women within EGGI GIROA counterpart organizations. During the quarter, EGGI graduated 11 interns from the program and in February, celebrated the one year from the launch of WIGIP. The WIG program provides interns with exposure to work experience in government, and an opportunity to develop the technical skills necessary to compete for employment opportunities historically not available to Afghan women.

The objective of the Women in Government Internship Program is to promote women in Government by providing 3-6 month internships within Ministries that align with EGGI's program objectives (e.g., Ministry of Finance, Afghanistan Investment Support Agency, Ministry of Commerce and Industries). The WIGIP provides interns with: Exposure to the work and impact of the GIROA or related entity; Work experience to assist with gaining long-term employment in the Government or related entity; Professional skills development and; Exposure to government culture, and "new" industries that will be regulated by government or independent agencies.

EGGI Graduates 11 Interns, and Supports Search for Full-Time Employment

During the quarter, 11 interns graduated from the internship program with specialized budget development, budget management, and information technology skills earned through their assignments working with EGGI Advisors in line ministries. Of the 11 WIG graduates, four EGGI interns who completed their



EGGI's Gender Mainstreaming Team speaks to Women in Government Internship Program interns about the importance of networking and building relationships with colleagues and other industry professionals.

internship assignment with the EGGI Program Budget Team they obtained full-time positions with the Directorate of the Afghanistan National Development Strategy (ANDS) or the Ministry of Economy, and one intern obtained a full time job as an Administrative Officer with the Ministry of Labor & Social Affairs.

EGGI's Gender Mainstreaming team regularly meets with EGGI counterparts supervising interns to ensure satisfaction with the program, and to facilitate dialogue regarding potential employment opportunities for graduates. In March, EGGI's Gender Mainstreaming Coordinator met with the Director General of Policy, Afghanistan National Development Strategy (ANDS), and MOE officials regarding possible employment opportunities for the recent WIG graduates. The General Director at MOE expressed interest in retaining six interns to work on the Priority Restructure and Reform (PRR) process based on the interns' strong performance. There may also be additional full-time employment opportunities under the Directorate of ANDS and MOE. Through meetings with counterparts, EGGI works to help interns obtain full-time employment following completion of the program.

Since February 2010, EGGI has provided internships to 30 educated and talented

women interested in developing long-term careers within the GIROA. Over the life of the WIGIP, 20 interns graduated, five interns were hired at the managerial level with GIROA, four were hired with EGGI, three were hired within the private sector, and three are currently in the government hiring process.

EGGI Facilitates Workshops for WIG Interns to Bolster Professional Development Skills

In February and March, the EGGI Gender Mainstreaming Team facilitated two workshops for WIG interns. The February workshop provided interns with the opportunity to participate in interactive capacity building exercises including delivering group presentations, and discussions on the importance of teamwork and networking strategies. EGGI collected feedback from the interns to gauge interest in topics for future workshops.

To support capacity building for interns, EGGI incorporates an internal monitoring and supervision system that includes coaching and technical skills development throughout the duration of the internship. Workshop curriculum is based on identified skill development needs. In March, EGGI facilitated a workshop in response to the needs for the recent WIG graduates. The workshop addressed resume development and interviewing techniques, and incorporated a gender awareness information session to help bolster their competitiveness as they search for employment opportunities in GIROA and the private sector.



Successful Internship Turns into Full-Time Employment: WIG Intern, Asiaya, was recognized by the Minister of Women's Affairs (MOWA) as a "very intelligent and talented professional." Asiaya successfully landed a position as a Project Account Officer at MOWA.

EGGI Activity in Herat, Balkh, and Nangarhar Progressing Core Objectives in Key Economic Hubs

Over the quarter, EGGI regional teams advanced key reform initiatives across all three components, further developed new workstreams, and more fully transferred to counterpart institutions operations of select activities supported since inception of EGGI regional offices. Progress was made in provincial tax and program budgeting under the Economic Policy component, DAB Zone Brach Development and Monetary Policy in component two, and Private Sector Development strategic planning in component three.

Importantly, EGGI regional teams witnessed a number of reform areas take deeper root and observed positive impact on other reforms taking place in economic governance areas. This is perhaps most pronounced in the areas of public financial management, where the results of EGGI assistance in tax administration, provincial budgeting, and central bank support have evolved into mutually supportive improvements the benefit a wide array of economic governance areas: revenue collection, reconciliation, and reporting; revenue deposit management and transfer to MOF; education and capacity building in budget development across provinces; and the growing set of economic data – fiscal, monetary, real sectors – that are forming a substantive data base available to GIROA authorities from which to monitor, manage, and respond to broad economic trends and conditions. Provincial level progress across a wide spectrum of EGGI supported areas is enabling central government authorities to better govern economic affairs. The gaining momentum in provincial budgeting work complements this activity. Assuming firm GIROA commitment to continue to improve provincial budgeting – on allocation and execution – a visible difference in the lives of Afghan citizens, businesses, and youth will become more pronounced, boosting confidence to all stakehold-



Over 70 officials from Nangarhar line directorates meet to discuss the process for updating the Provincial Development Plan. Nangarhar's PDP has not been updated since 2007. EGGI is supporting provincial PDCs to identify strategies to update the Private Sector Development Component of the PDPs.

ers that GIROA's capacity to manage development, reconstruction, and economic affairs is improving across the board.

Herat and Mazar MTOs Exceed Revenue Collection Goals for 1389

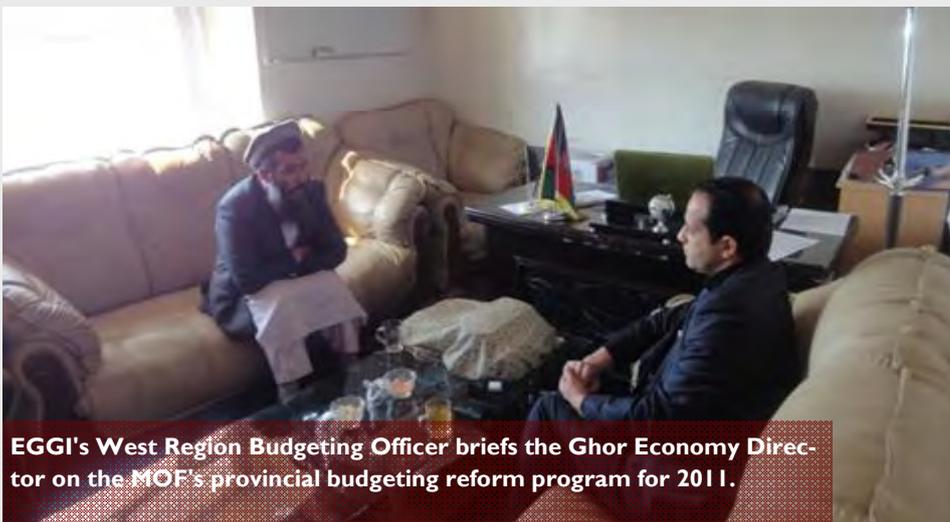
In the area of tax administration, EGGI saw sustained progress in the Herat and Mazar Medium Taxpayer Offices. The consistency seen in all months under review in tax filing compliance and tax collections demonstrates considerable, sustainable progress in MTO operations. At the close of the 1389 fiscal year, both the Herat and Mazar Medium Taxpayer Offices (MTOs) achieved strong revenue collection figures, each surpassing their annual collection goal. In Herat, the MTO closed out tax year 1389 having collected 149.6 million AFN, beating their annual collection goal of 100 million AFN. The tax compliance rate also improved to almost 80%. In Mazar, the MTO collected 127.5 million AFN, more than double their collection goal of 60 million AFN, with a 55% compliance rate. Such strong revenue collection

figures are promising signs of Afghanization as the MTOs' evolve into sustainable revenue collecting institutions.

Efforts in March centered on transferring full ownership of MTO operations to MTO staff – which are considerably more prepared for strong management. Efforts to establish the MTO in Nangarhar have met with persistent complications, owing mostly to counterpart inaction to adequately staff, resource, and enable MTO operations to even get started. EGGI launched the MTO in February 2011 and conducted on-site support, although plans to spend more time in commencing operations in full were hampered by travel restrictions and, of course, the termination of expat provincial support.

Progress in Provincial Budgeting Training and Capacity Building

Provincial budgeting saw considerable progress, in training delivery and capacity building. EGGI trained over 250 provincial financial management officers in several provinces. Training themes included concepts of program budgeting, financial forecasting, understanding the MOF budget process, and linking program proposals to Afghanistan's National Development Strategy. EGGI efforts to better align provincial and program budgeting workstreams to assistance at the Ministry of Economy (in its capacity as monitoring and evaluation authority for provincial development planning) started to bear fruit before the termination of EGGI's work. Nevertheless, in Herat, Nangarhar, Balkh, Helmand, and Kandahar provinces, EGGI has firmly established provincial budgeting teams, facilitated by much stronger engagement with provincial authorities within the Mustofiat and promoting better communication and coordination between MOF Provincial Budgeting Directorate with their provincial counterparts.



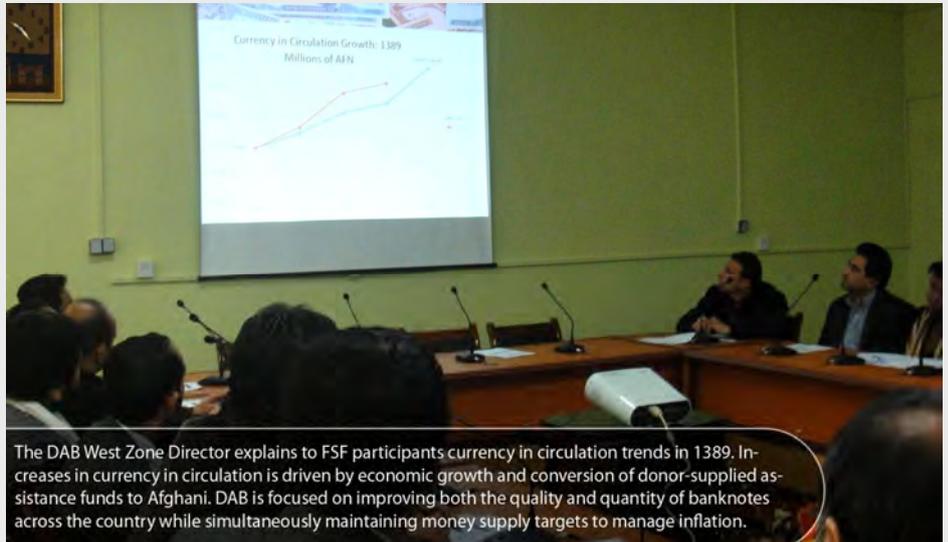
EGGI's West Region Budgeting Officer briefs the Ghor Economy Director on the MOF's provincial budgeting reform program for 2011.

EGGI Activity in Herat, Balkh, and Nangarhar Progressing Core Objectives in Key Economic Hubs

Economic Data Collection and DAB Stakeholder Engagement Advanced

EGGI support under the Financial Sector Development component has been concentrated mostly in Herat and Nangarhar, owing mostly to the fact that DAB has on-boarded zone economists in these two regional offices. With the zone economists in place, initial effort focused on establishing the Survey of Regional Activity (SREA), which EGGI supported DAB launch in the West, East, and Central Zones. In Herat two surveys were conducted over the quarter, executed almost entirely by the DAB zone economist. The SREA was also launched in the East zone, supported by a monetary policy mission to DAB East Zone Office in February 2011.

Also in Herat, EGGI supported the second Financial Sector Forum, hosted by the DAB Zone Office, which focused on liquidity management and improving bank note quality. The event, held on January 19 and attended by over 30 participants, was well received and promoted stronger linkages between commercial banks, money service providers, and DAB with respect to coordinating better to forecast cash needs on a monthly basis and establishing a more structured process for citizens to exchange (free of charge) damaged notes from financial sector providers and for their subsequent exchange from DAB. Improving the quality and availability of bank notes in circulation will impact positively basic market transactions, eliminating the indirect costs involved with transacting in damaged notes. A visible difference in the marketplace of bank quality will also bolster DAB's public perception as taking substantive action to improve this aspect of its operations. New bank note distributions by DAB's Head Office to DAB zone offices continued apace throughout the performance period,



The DAB West Zone Director explains to FSF participants currency in circulation trends in 1389. Increases in currency in circulation is driven by economic growth and conversion of donor-supplied assistance funds to Afghani. DAB is focused on improving both the quality and quantity of banknotes across the country while simultaneously maintaining money supply targets to manage inflation.

dispatching approximately 400,000,000 AFN in new notes across the country.

Another important development in Herat includes the increasing levels of non-cash settlement for customs collection at DAB border branches in Islam Qalah and Torkhundi. Over the last six months, EGGI has promoted the use of non-cash settlement instruments for high-value transactions, particularly for those transactions taking place in DAB branches. Non-cash transactions dramatically speed up settlement time, offer quicker postings to beneficiary accounts, reduce risk of fraud and theft, and create auditable financial trails. Working closely with the DAB Zone Office director, EGGI assisted with the development of simple procedures for clearing and settlement through non-cash instruments (such as bank check and EFTs) and worked with DAB Head Office officials on the accounting and inter-bank settlement for such transactions. At the end

of the performance period, DAB Torkhundi processed over 60% of customs payments through non-cash means. Approximately 25% of DAB Islam Qalah customs-related transactions were processed in this manner, a disappointing percentage owing mostly to resistance of traders and customs authorities to adopt non-cash settlement. The DAB Zone director continues to focus on working with relevant authorities to increase this percentage over time.

EGGI/Mazar Finalizes Balkh Business Profile; Transitions PSD Strategy Implementation to Counterparts

During March, EGGI/Mazar finalized the **Balkh Province Business Profile**. The profile utilized information gathered during process of developing the Economic Profile, published in the fall last year. The goal of the Balkh Province Business Profile is to serve as promotional material, useful for potential **investors to make decisions on investing in Balkh Province**.

Additionally, EGGI/Mazar focused on wrapping up activities in private sector development, including facilitation of implementation of projects defined in the Balkh PSD Strategy. EGGI/Mazar met individually with Strategic Goal Leaders and other key counterparts from the Governor's Office and Provincial Council to summarize activities and provide them with **final advice on how to proceed with implementation and monitoring of the PSD Strategy**. In addition to these individual sessions, EGGI organized collaborative sessions with key stakeholders to review accomplishments of the EGGI program and provide suggestions for sustaining the positive momentum generated with regard to private sector development activities.



Over 30 representatives participated in the January 25 monthly Balkh PSD-SC meeting, chaired by the Directorate of Economy. Major focus at the meeting was centered on the status of PSD Strategy implementation and actions to overcome identified challenges. Since EGGI involvement, participation and output of the PSD-SC meetings have grown considerably.

EGGI Activity in Herat, Balkh, and Nangarhar

Progressing Core Objectives in Key Economic Hubs

In addition, EGGI prepared a “**Private Sector Development Tool Kit**” for distribution to organizations dedicated to carrying this activity forward. Materials such as the PSD Strategy and Balkh Province Business Profile will be copied in larger quantities for wide distribution. All materials will be delivered to core partners to equip them for continuation of activities in private sector development.

EGGI/Nangarhar Assists PSD-SC in Completion of the Business Survey

In Nangarhar EGGI assisted with completion of the business survey among local entrepreneurs, which involved a wide variety of businesses sectors. Conducted by the Jalalabad Task Force of Private Sector Development (PSD), over 70 respondents were surveyed, yielding primary source information on the situation of private sector in Nangarhar. EGGI assisted the Task Force to organize and draft the Business Survey Results Report and develop a presentation for members of the Nangarhar PSD-SC. It is envisioned that results from the survey will be utilized by different organizations to inform and guide actions aimed at improving the private sector enabling environment and developing key sectors in Nangarhar province. Given the demobilization of EGGI’s Nangarhar office and the discontinuation of support for this workstream, production of a full strategic plan by the PSD-SC will be a challenge without further technical support.

EGGI/Herat Supports Production of First Draft Implementation Plan for Private Sector Development

In Herat, EGGI coordinated with stakeholders to produce the first draft of the Implementation Plan for Private Sector Development in Herat province. This achievement follows the successful February 2011 workshops devoted to identifying critical issues, strategic themes and objectives, key sectors for attention, and proposed

interventions. EGGI assisted in analyzing and processing outcomes of this collaborative process, mainly in selection of interventions, proposed by Herat stakeholders, to address defined strategic objectives. Proposed interventions were then incorporated into a draft document.

On March 19, EGGI met with the Chairman of the Economic Governance PSD-SC to review the document and plan for sharing the draft with the full committee to validate proposed interventions and seek additional inputs prior to completing a final draft. EGGI/Herat produced English copies of the draft and plan to host a special PSD-SC session prior to the close of EGGI’s Herat office on March 31. During the meeting with the PSD-SC Chairman, the EGGI/Herat Regional Manager communicated EGGI’s departure from Herat and termination of EGGI support to the PSD-SC. The Chairman will attempt to carry this initiative forward to the best of his ability. All related documents produced throughout the implementation plan development process have been turned over to the PSD-SC Chair.

EGGI Regional Based Assistance Ends

Given USAID direction to discontinue support in key economic governance areas and the close down regional offices, several activities in the works for many months came to inconclusive close.

James Wright (left), USAID Senior Development Representative/West Region, explains the importance of the Private Sector Development (PSD) strategy and reinforces USAID’s support for PSD activities in Herat.



In other areas where progress has been substantial in target provinces, such as DAB Zone Branch Development, and Provincial Tax Administration, EGGI worked to transition lead responsibility to counterparts to sustain progress. The termination of regional offices and departure of expat support, hurt the momentum achieved in these areas. A majority of activity in March concentrated on holding discussions with counterparts and key stakeholders (e.g. USAID FPOs, State Department Representatives, and other implementing partners) to explain the termination of support and prepare, for transferring full responsibility of reform and development initiatives underway to counterparts. In addition, significant time was expended in operational matters (inventory disposition, lease termination, etc.) and assisting impacted national staff with job placement.

Private Sector Development (PSD) workshop participants identify important issues critical to the PSD strategy implementation in Herat.



While much was accomplished, the termination of support to private sector development was left incomplete and concerns were expressed by counterparts concerning ongoing implementation of the key issues identified in the course of EGGI’s lead role in development private sector development strategies.

Additional Areas of Workplan Progress

Component I: Economic Policy

Fiscal Policy Unit

EGGI worked with officials from the Fiscal Policy Unit (FPU) to develop **user manual** documentation for the GIROA Revenue projections model. The model is used by the MOF's Budget Department as the primary source to project expected revenue flows over the coming fiscal year and two outer years. There is currently no user documentation underpinning the model and it will be important to enshrine user guidance in a physical manual that can be used by existing and new FPU officials in the coming years.

Officials from the MOF's Fiscal Policy Unit (FPU) met with their counterparts from DAB/MPD in January to discuss the ongoing development of a **GIROA owned financial program model for Afghanistan**. Once completed, the financial program model for Afghanistan will help GIROA economic agencies such as the MOF and DAB use analytical tools to simulate and analyze the potential impact of economic policy decisions. The financial program under development will be an excel based model that will link real sector, monetary and fiscal variables with the balance of payments with a view towards a policy mix that contains the public sector deficit and inflation within manageable levels. EGGI will work with the FPU to review and complete the data requirements for the fiscal sector sections of the model.

EGGI helped the FPU deliver policy work in several areas including completion of analysis on GIROA budget execution performance over FY1389 for inclusion within the **MOF 3rd Quarter Fiscal Bulletin for 1389**. During the recent IMF Extended Credit Facility mission, EGGI facilitated discussions. EGGI is also supporting the FPU's involvement in the MOF tax policy working group sessions.

Policy Support to the MOF

EGGI continued to support the Minister of Finance in ongoing **ECF negotiations** between the government of Afghanistan and the IMF. Following an IMF visit in February, the MOF held several video-teleconferences with the IMF to continue the negotiations over the \$125 million credit facility. While most proposed fiscal and legislative benchmarks have been agreed to in principle by both sides, incremental progress is being achieved on details of two key fiscal issues: timeline for implementation of a **Value Added Tax (VAT)** and the IMF's proposed revenue target of 97.3 AFN. The Minister noted that

An official from the Wardak Governor's Office raises a question during a presentation on formulating annual budget estimates. As a result of the workshops, provincial officials are more knowledgeable of the budget process and are building skills to prepare budgets submitted to line Ministries reflective of provincial priorities.



some pending fiscal benchmarks would require parliamentary submission, but not explicit parliamentary approval. EGGI provided technical expertise to the Minister and other staff prior to and at each meeting, and organized the video teleconferences.

Efforts to reduce Afghanistan's foreign debt burden yielded progress during the quarter when EGGI helped the Minister to **cancel \$17.4 million in liabilities owed to the German Government**. This debt forgiveness represents 100% of the remaining obligations owed to the German Government, and represents a continuation of Paris Club efforts to significantly reduce Afghanistan's foreign debt portfolio.

In February, EGGI assisted the MOF to convene its second **"reform" retreat** – a follow-up session to its first retreat in December. During the retreat officials finalized action plans for 2011 for five key MOF departments. After consultation with key ministry stakeholders, officials segmented the plans into 100-day periods to make for achievable milestones.

Concurrent with this reform effort, EGGI produced a reform plan for the Minister's Chief of Staff to strengthen information flow between the Minister and the Ministry, enable the Minister to produce effective policies, and facilitate accurate policy execution on the part of Ministry staff. Through modest equipment and resource build-out, the proposal enables the Chief of Staff to assume a greater day-to-

day management role for the Minister's affairs and serve as the critical link between the Minister and the Ministry.

During the quarter, MOF's **Tax Policy Working Group** convened three sessions to discuss next steps to facilitate the implementation of the VAT. Created in October 2010, the goal of the Group is to resolve key tax reform challenges facing the government. In an effort to generate additional revenue over the long-term, the Minister has agreed in principle to support VAT reforms in Afghanistan. Comprised of ministry technical-level representatives from the Revenue Department, Customs Department, and Fiscal Policy Unit, the Minister's Tax Policy Working Group convened a meeting with the IMF to discuss their views and recommendations on the structuring of the VAT, implementation of the VAT, and proposed timeline. After this meeting with the IMF, the Tax Policy Working Group convened a regular meeting to discuss next steps to meet the proposed IMF benchmark of VAT implementation by 2014.

In addition to its two meetings on VAT reforms, the Working Group also convened to discuss the Ministry's position on donor tax and customs exemptions. Members of the working group echoed the Minister's position for a need to standardize exemption agreements with donors, and supported a universal framework for future exemption agreements. The Working Group has requested the Minister to enshrine a body that has the mandate to standardize a formal, unifying approach to donor tax and customs exemptions.

Additional Areas of Workplan Progress

Component I: Economic Policy

Revenue Reconciliation Database

Following installation of the **Revenue Reconciliation Database (RRD)** in all 34 provinces, EGGI installed the system in 10 more central line ministries. To date, 32 out of 51 GIROA agencies are using the RRD to report revenue collection figures.

EGGI also aided the MOF's Afghan Revenue Department (ARD) to gain control over collection of revenue at select Provincial Mustofiats. EGGI implemented **Qatya** (end-year financial statements) and **Baqyat** (expenditure/revenue reconciliation) automation in Parwan and Mazar Provincial Mustofiats. The implementation of Qatya and Baqyat automation enables these Mustofiats to monitor revenue collection among the different departments.

The MOF Revenue Department is now able to store revenue data reported by province, reconcile revenue data and perform analysis on revenue trends. The database is helping provincial Mustofiats to automatically generate revenue reports—thereby reducing the transactions costs associated with manual preparation of these reports—and utilize the revenue module of the AFMIS.

Expected to be transitioned to MOF control in April 2011, the RRD enables GIROA to acquire real time information on the amount of domestic revenues collected across the country thereby improving financial planning, control and management of public resources. To support continuity in system maintenance, EGGI developed a user manual. The manual will staff to use the RRD and train employees and ARD staff to monitor, maintain, and utilize the database.

Program and Provincial Budgeting

EGGI supported 37 budgetary units to submit finalized **Chart of Accounts (COA)** to the MOF. The COA is a systemized approach to code programs, sub-programs, activities and projects according to the Afghanistan financial management information system's coding structure and is used to track financial transactions during budget execution.

Provincial Tax Administration

In Herat, the MTO commenced **full taxpayer audits** to bring taxpayers into full compliance by examining taxpayer books, records, and receipts and compare them against income and expenses reported on an income tax return. It is anticipated that full audits should mobilize revenues by an additional 20 to 30% during tax year 1390.



Balkh Province's Mustofi distributes certificates to Mazar MTO managers for successful completion of EGGI's Management and Leadership Training course. The 40-hour course is designed to enhance managerial effectiveness in workload management, planning, employee development, and other related skills.

EGGI completed **Management and Leadership Training** for managers of the MTO and other Balkh Mustofiat ARD offices. The 40-hour course is designed to enhance managerial effectiveness in workload management, planning, employee development, and other related skills

Control and Audit Office

To reinforce classroom training, EGGI conducted provided **on-site assistance** at several CAO annual audits. EGGI's visits helped identify vulnerabilities in CAO audits. Given the absence of a sound audit methodology and lack of well trained auditors in Afghanistan, EGGI's assistance during the quarter bolstered CAO's capabilities in technical areas where it lacks expertise.

EGGI continued to support CAO and USG in efforts to establish a strong **National Audit Law**. The original draft lacked independence in reporting, budget and managerial autonomy, and was not free from executive oversight - all requirements for independence for Supreme Audit Institutions. Without a legal framework to support the CAO, capacity building efforts would have a limited impact on the CAO's effectiveness as a SAI. EGGI met with USG officials and provided insight on ways to make the law more tenable. The Cabinet passed a stronger law accomplishing many changes for a more independent CAO. Although the current draft is not perfect, it is a step in the right direction for the CAO and GIROA.

Support to the MOEC

EGGI supported the **Ministry of Economy** in its role as the premier ministry that supervises the design and selection of projects in the Afghan development budget, or **Public Investment Program (PIP)**. While the Ministry of Finance coordinates the financing of key government activities, including development projects, the Ministry of Economy is tasked with determining the feasibility and merit of development projects – thereby serving as a key input into the Public Investment Program (PIP). EGGI has provided training to MOEC staff to improve their project selection capabilities and strived to improve the project selection process through technical concept papers and ensuring donor involvement in the reform changes.

Additional Areas of Workplan Progress

Component 2: Financial Sector Development

Accounting & Financial Management

With EGGI's assistance, DAB successfully **recovered US\$ 35,554,798.04 belonging to the Bank but unaccounted for in financial records since 1384 (2006)**. The oversight is due primarily to long outstanding un-reconciled balances of DAB's foreign bank accounts as well as un-reconciled balances between DAB Head Office and DAB branches (inter-branch accounts). The amount has now been transferred to the overseas correspondent bank account of the DAB.

EGGI assisted **DAB in reconciliation of financial records for one extra branch**. Un-reconciled figures at this branch are now fully reconciled with the amounts in the head office. Seven years of balances (from 2005 to 2011) remained outstanding are now up to date, making the total of **29 branches to be fully reconciled**. EGGI provided technical oversight to the reconciliation process. Full reconciliation between the bank's head office records and its branches will enable DAB to identify assets, liabilities, income and expenditures from previous years.

In February, DAB, with EGGI assistance, commenced the process of an **interim audit of its financial reports**. The audit will form part of the financial year-end audit process that is conducted by international external auditors, KPMG Afghanistan, and will involve the examination of the DAB's financial records, confirmations and other observations that the auditors will find necessary as part of the annual audit procedure. The interim audit is a necessary step in the annual audit for the purpose of reducing the amount of work required for the upcoming year-end audit for the financial year ending 30 Hoot 1389 (March 20, 2011), in order for the Bank to meet the 3-month deadline for the submission of financial statements to Parliament on June 20, 2011.

Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance

EGGI The Financial Supervision workstream supports the Financial Supervision Department (FSD) efforts to monitor and regulate the commercial banks operating in Afghanistan. With the Kabul Bank failure and subsequent bank crisis, the original project goals and deliverables were revised to reflect the current situation and support the central bank's responsibilities to supervise the banking industry. Specifically, the advisors were now allowed to go to the commercial banks and participate on a daily basis on the on-site examinations and provide support to the examination teams and conduct on-the-job training on a variety of supervisory issues.

During the quarter, EGGI focused on supporting the examination team reviewing a large commercial bank. The goal was to assist the examiners in identifying risks within the commercial bank that were not being properly and adequately managed. For the problems identified during the course of the examination, the advisory worked with the examination team to develop recommendations and enforcement action plans that will fortify the bank's balance sheet and its ability to absorb any losses due to credit risk or other issues. These efforts support USAID objectives strengthen DAB's FSD regulatory oversight of the financial sector and thus strengthen the commercial banks operating in Afghanistan.

Payments Systems

EGGI supported upgrades and modifications to the **Afghanistan Clearing and Settlement System (ACSS)** and interface to the Core Banking System (CBS). During deployment, EGGI coordinated with the vendor company, Virmati, to address technical issues. These improvements corrected bugs in the system and support the settlement process of transactions and eliminate repetition of transactions with the same settlement status.

EGGI completed the **testing of modifications to the ACSS** and changes were deployed to the production server. The modifications are mainly to the security of access [avoiding multiple logins] to the system and allowing commercial Banks to view reports of numbers of transaction they performed. The transactions are automatically updated to the settlement accounts of both the issuing and receiving bank. This enhancement allows the commercial bank to receive and view the net and gross settlement reports from the system for reconciliation.

Kabul Bank Resolution

EGGI worked closely with DAB officials, the IMF, and the Conservator management team at Kabul Bank to prepare an acceptable resolution plan, improve the management functions of Kabul Bank, and maximize recovery of the problem credits. EGGI's Credit Review and Recovery Advisor, working with the IMF advisor to DAB, provided recommendations for the structure, functions, and implementation tasks for a potential program. EGGI's Operations Advisor provided recommendations on actions for improving key internal functions, including asset/liability management, budgeting, cash management, profitability analysis, relationship management, and human resources management.

Following the IMF Mission in February an approach for resolution was developed and accepted by DAB, the Ministry of Finance and the IMF. The result of the common effort was the preparation of a roadmap for developing a detailed resolution program, including organizational structure, procedures, budgets, and specific action plans.

EGGI assisted the DAB Counsel General in the preparation of various resolutions for approval by the DAB Supreme Council as the basis for proceeding with the definitive Kabul Bank resolution program. All the necessary resolutions were approved March 15. EGGI worked closely with IMF advisors and DAB officials in the preparation of the various applications and documentation required for implementation of the resolution program.

In support of strengthening the management capacity of Kabul Bank, several programs have been initiated to reduce expenses, improve revenues, and strengthen controls. Specific examples include: 1) support to the Kabul Bank Conservator and executive team as they initiated a more structured approach to bank-wide asset and liability management with the inaugural meeting of the Asset/Liability Management Committee; 2) assistance to Kabul Bank in the pricing of its government salary distribution program in response to a RFP, employing a more structured approach to proposal development and product pricing; and 3) review of profitability analysis, particularly addressing the value of the extensive branch network; its current cost structure, its current and potential revenue generation, and the role the branches serve in the government salary distribution program.

Additional Areas of Workplan Progress

Component 3: Private Sector Development

Business Registration (ACBR)

In January, EGGI completed planning to integrate **trademark registration for ACBR** and finalized a document that outlines the current trademark process and steps to integrate the trademarks database and registration system into ACBR. EGGI also drafted a document that will guide MOCI to transition trademark registration to ACBR from the Commercial Courts.

The EGGI/ACBR team finalized the **ACBR Application and User Guide** providing a ready reference tool that will help in quality assurance and be useful for training purposes. The document follows global best practices by combining the actual application interface with necessary steps required by ACBR staff in entering a registration. Publication of the completed guide is a necessary prelude to further enhancements in the ACBR application.

EGGI supported creation of the **Business Registration Form**, which will be printed after business registration information, is entered into the ACBR system. The applicant will have to approve the form and the information from the system before the certificate of business registration is issued. This method is widely accepted as a way to ensure data integrity as registration information is entered. Training sessions, using the new documentation and enhancements, is scheduled for early March in both Kabul and the provinces.

The EGGI/ACBR team finalized the **implementation of Cyberoam (security firewall)** across ACBR Kabul, Jalalabad, Mazar, Herat and Kandahar to enhance ACBR secu-

urity and support the proper use of the Internet. The remaining provincial locations where DSL is available will be switched from VSAT to DSL. This activity will likely result in considerable cost savings to ACBR.

EGGI delivered **“Data Quality Improvement”** training to ACBR staff. The training covered the ACBR application, legal FAQ’s as needed by ACBR professionals, and solicited input on improvements to the application aimed at quality control of new registrations. Participants learned how to better manage data input into the ACBR system, and utilize the full scope of recent changes to the ACBR application.

Telecom/ICT Sector

ATRA and the Ministry of Justice completed the **validation of all revisions made to the Telecom Law** as approved by Presidential Decree several months earlier. The required 5,000 copies of the Law have been distributed throughout Afghanistan. The revised Law requires restructuring of the ATRA Board and a new executive management framework, expanding ATRA’s scope of authority to include Internet services, and expanding the scope of the Telecommunications Development Fund (TDF) program to include telecommunication and Internet services to schools and hospitals. The revisions also corrected several translation errors in the prior Law. EGGI initiated the process to implement the revisions in all affected ATRA practices and regulations.

Responding to the near absence of internal controls, EGGI adopted a continuous but gradual process for **developing ATRA’s accounting and financial management**

systems. Accordingly, EGGI guided ATRA management to introduce the physical verification of cash at regular intervals, prepare bank reconciliation statements for each of the ATRA and TDF bank accounts, and file payment vouchers in serial number order and in the date sequence. Daily physical counting and reconciliation of cash that began in January continued throughout the month. EGGI also began examining the internal control for the determination and receipt of different types of license fees.

EGGI continued **classroom training for ATRA accounting and audit staff** throughout the quarter. EGGI assessment of trainees revealed that 50% are progressing satisfactorily and have the acumen to continue further accounting training. The goal of EGGI’s training efforts was to build capacity of ATRA staff to administer a sound auditing and accounting system.

Private Sector Development

In January, EGGI supported the Nangarhar Provincial Development Committee to Update its 2007 Provincial Development Plan (PDP). During a special session of the PDC, the Nangarhar Governor and Deputy Governor met with 70 Nangarhar provincial line directorate representatives to discuss the process for updating the Nangarhar 2007 PDP. EGGI/Jalalabad assisted the Deputy Governor in preparing the presentation on the PDP process and developing the project costing worksheets.



EGGI’s ACBR team conducts a training session with ACBR Kabul staff on business categorization to improve the quality of data entered into the system.

Component I: Economic Policy

Fiscal Policy Unit

GIROA is currently negotiating the parameters of a new macroeconomic program with the IMF. The new program is likely to have fiscal sustainability, low inflation and sustaining economic growth as its core strategic objectives. The Fiscal Policy Unit (FPU) is meant to be the core source for strategic analysis/advice within the MOF on macroeconomic policy, revenue and expenditure decisions in support of the new IMF program's objectives. However, the FPU is poorly resourced (in terms of capacity) and is primarily focused on expenditure analytical issues. Going forward, the unit will need to acquire additional capacity to focus analysis on tax policy and on effective macroeconomic policy co-ordination with the Central Bank. The unit is currently undergoing a period of transition due to the recent promotion of the unit head and installation of an acting unit head. Due to recent cuts in LOE, EGGI will not be able to support the development of tax policies, specifically in the FPU; however, the EGGI advisor can continue to provide support on fiscal projections and analysis.

Policy Support to the MOF

During the reporting period, the Minister and DAB Governor have been able to secure the government's support for Kabul Bank's receivership (IMF's prior main point of dispute, now resolved), which DAB's Supreme Council recently approved. While DAB is assuming the lead on relevant banking issues, key issues concerning the Minister's fiscal portfolio remain outstanding with the IMF as part of the ECF negotiations:

- **Recording of amortization of DAB recapitalization payments in 1390 budget:** Following parliamentary rejection of the Afghan Government's 1390 budget submission in late March, ministry technical staff tentatively plans to insert an amendment into the existing budget submission to include the recapitalization amortization payment for 1390. Parliament may not be supportive in the next submission, in which case further discussions with the IMF may be required;

- **Agreement between MOF and DAB on recapitalization:** Negotiations on the terms of the agreement are ongoing between DAB and MOF. The IMF wants to ensure that the draft agreement ensures that all capital shortfalls – both existing and future -- are adequately funded and that the relevant authorities (i.e. President of Afghanistan) sign off on this agreement; and

- **Public communication and ex-post inquiry about Kabul Bank:** The IMF wants a public accountability effort to commence on the Kabul Bank matter as soon as possible,

comprised of two initiatives: a public communication strategy detailing the origins and government's response concerning the banking crisis, and a public inquiry committee that provides a candid and comprehensive evaluation of the Kabul Bank matter. The Minister and Governor have agreed in principle, but are still negotiating the relevant details.

The Minister of Finance's office is comprised of numerous advisors from a diverse set of international companies under contract with donor agencies. With the arrival of two new EGGI advisors in August 2010, coordination with non-EGGI advisors in the first six months has proven to be difficult, although it is incrementally improving. As the half-year closes, there is potentially expected to be some ferment, as two non-EGGI advisors in the Minister of Finance's office may depart on a permanent basis and an EGGI advisor will be departing in May 2011. Since less coordination is required, this development may assist in improving operations at the Minister's office – however, staff resourcing to support the Minister will be reduced. In the meantime, EGGI and non-EGGI advisors are trying to coordinate and share information to reduce inefficiencies in the office. EGGI advisors will continue to report on the progress among the advisors in the Minister of Finance's office.

Program Budgeting

While the introduction of program budgeting has gone relatively well, full implementation is a major reform which may take several more years. This reform will require further changes in the current Afghanistan accounting system AFMI to support the detailed budget costing required to support program budgeting. Although efforts to track expenditure and performance by program and prepare financial and procurement plans by programs are progressing, GIROA is not planning to appropriate funds by programs for at least another two years until the 1392 budget. Additionally, many of the line ministries are without computers, computer training, internet and in some cases, reliable power. As such government employees may not have knowledge or experience with development or manipulation of simple spreadsheets.

Provincial Budgeting

A significant challenge for provincial line directorates is the weak or occasional lack of communication between the Line Ministry and the directorate. In many of the provincial budgeting workshops that the MOF conducted with EGGI support, line directorate officials cited their lack of knowledge of their development budget allocations or lack of feedback from the Line Ministry when a request was submitted to fund additional operational expenses or development projects during the fiscal year.

EGGI has proposed in the revised 2011 Workplan several mechanisms to improve communication, including a MOF-facilitated workshop to brief Line Ministries on the provincial budgeting reform activity and a steering committee consisting of the MOF, MOEC, IDLG and three Line Ministries Education, Public Health and Rural and Rehabilitation Development with the line directorate representatives to guide the implementation of the technical assistance in budget formulation for 1391 national budget proposed for these three Line Ministries.

Policy Support to the MOEC

Lack of staff at the DG of Policy has constrained the ministry's ability to designate policies and guidelines to improve the selection process for development projects across the government. This ongoing challenge was highlighted in the MOEC Functional Assessment Report, which the EGGI advisor produced in 2010. Resourcing difficulties remain problematic for the MOEC as it will be unable to accomplish its mandate as the ministry in charge of designing and facilitating the selection of projects funded by GIROA's development budget.

Provincial Tax Administration

The MTO in Nangarhar finally opened in February after a seven month delay. The delay was originally because the Mustofi refused to provide adequate office space and approve adequate staffing. While the MTO is technically operational, it is under-staffed with only eight of the 25 requested tax officers hired. Procurement of furniture and equipment has also been delayed; thus real operations cannot commence until required resources are in place. As a result, the MTO was not prepared for the start of the tax filing season. Such delays and inadequate staffing will negatively affect program delivery. EGGI requests USAID assistance to meet with senior officials at the MOF to discuss the situation and determine a positive way forward.

Control and Audit Office

EGGI's concern with the current capacity development approach (development of an audit manual only) is that, given the observed level of audit understanding at the CAO, capacity building will be difficult regardless of an audit law. Development of an audit manual without hands-on reinforcement and training to teach the CAO how to properly execute an audit raises the risk that a sustainable SAI that is objective and competent will not be achieved. While the World Bank is investing more resources in the CAO, it is unclear whether the CAO's plan and vision (developed with EGGI support) will be implemented.

Component 2: Financial Sector Development

Termination of EGGI Assistance at DAB

On April 21, EGGI's technical assistance to Da Afghanistan Bank (DAB) will cease. USAID has begun arrangements for FAIDA to provide some technical support. The termination of the EGGI contract and the prior right-sizing of staff will leave several previously envisioned workstreams incomplete. DAB's ability to sustain progress and build upon the previous achievements in the short to medium-term is not certain. DAB, like most government offices in Afghanistan, is challenged by a young cadre of staff members and does not have a deep bench of resources. The current financial crisis has caused the Governor to reassign many of his leadership team into other areas. EGGI's departure will have real and immediate impact across several Central Bank activities and departments including the Accounting and Audit; Payment; Technology; Supervision; DAB Zone branches and regional offices; Legal; Supervisory; Deposit Insurance; and Monetary Policy and Statistics divisions.

Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance

Since September 2010, DAB management and staff, as well as the donor community, have been preoccupied with the Kabul Bank failure and the original scope of work was put on hold. The work load was shifted to address

the issues surrounding Kabul Bank and accompanying media reports. In addition, advisors worked with DAB management and staff to identify the lessons learned from the bank failure as well as develops an action plan to strengthen financial supervision's oversight of the commercial banking system.

Monetary Policy and Statistics

The quote for development of EGGI's proposed database came in unacceptably high. EGGI will investigate alternatives. One includes supporting DAB IT in soliciting competitive bids for a stand-alone system. The current proposal is for a module in CBS which meant it had to be bid as a sole source. It is likely a lower cost can be achieved but it is unlikely this can happen within the remaining two months of the EGGI Monetary Policy advisor's assignment. Alternatively, DAB IT could explore potential for in-house development of the database. The IT department has the capacity to produce a satisfactory system but this will take some time.

Payments Systems

One challenge lies in giving MOF direct access to the ACSS system allowing the MOF to independently initiate electronic transactions. The lack of adequate IT/DAB support has greatly delayed the implementation of this connection with the Afghanistan Clearing and

Settlement System (ACSS). A solution is that DAB/IT could provide a point to point connection to the MOF server which enhances MOF access to the ACSS to speed up the transmission of transactions issue on MOF side.

Lack of cooperation and support from management within the Payments Directorate is keeping the number of checks passing through the Clearinghouse at low volume. EGGI's national advisor proposed to payments section leadership to reconsider/increase the limit on the sum of checks currently settled through the Clearinghouse, this will hopefully lead to an increase in the volume of checks and daily exchange between commercial banks.

Component 3: Private Sector Development

Business Registration (ACBR)

The movement of EGGI's ACBR work solely to mode will present a challenge by leaving most in-progress activities unfinished and planned developments to improve ACBR operations toward international best practice will not take place.. As ACBR plays a vital role in the DBI related efforts concerning required reforms in the business registration in Afghanistan, the project will not be able to implement further reforms.

MOCI has approved a new organizational structure for the year 1390 (2011-12) that also includes the ACBR Directorate, therefore all positions will be announced via the Afghanistan Civil Service Commission. ACBR is using a web-enabled application for which all the staff working in ACBR are trained. This could potentially pose a challenge if the ma-

majority of the staff are shifted or replaced in the new organizational structure for ACBR.

Doing Business Better Initiative

DBBI is facing weak participation by government officials in Working Group meetings, particularly in the 'Protecting Investors' meetings. Government entities are slow to respond to MOCI/DBBI official letters requesting participation. Representatives that have been introduced are not attending the meetings. The EGGI/DBBI team is working to manage this through Minister's office by re-sending letters to follow up on original invitations from the Minister, MOCI.

Commercial Law

A challenge for this workstream during the past 3 months is the absence of a Legal Directorate Director at MOCI. Moreover, the

MOCI legal advisor position was removed from the organizational structure and the EGGI expat legal advisor position was never filled. These factors impeded progress in the EGGI Workplan.

Private Sector Development

Private sector development activities were terminated with a short notice and it was difficult to design and implement sustainability measures to enable activities to be continued without EGGI presence. Although some measures were put in place, there is a risk that without mentoring activities they will lose momentum.

Looking Ahead: EGGI Goals for Q3

Comprehensive set of future activities will be included in the Workplan.

Looking Ahead: Economic Policy

Fiscal Policy Unit

EGGI will continue to support the FPU in compiling fiscal accounts for inclusion in the financial program model that is currently being jointly developed by the MOF and DAB/MPD. Once complete, this model will enable GIROA to generate independent three-year projections on developments in the monetary, fiscal, real and trade sectors of the Afghan economy. This will enable GIROA to make better informed decisions on macroeconomic management and also reduce their dependence on international financial institutions such as the IMF for macroeconomic forecasts.

Policy Support to the MOF

In the near-term, the EGGI advisors to the Minister of Finance will work to accomplish three objectives focused on themes of budget support and execution, and revenue collection. First, EGGI will support completion of ECF negotiations with the IMF. Despite a protracted negotiating period due to bank sector disruptions, it is widely anticipated by stakeholders that an IMF program could be approved in May 2011 at the earliest. EGGI advisors continue to focus their attention to assist the MOF to expedite approval. EGGI will also assist the MOF to work closely with the World Bank to design Development Policy Grants (DPGs) totaling \$80 million-plus to provide on-budget support for key sectors. Because this funding is benchmark-free (unlike other World Bank programs in Afghanistan), extensive discussion and programmatic analysis amongst stakeholders will be required in the design of the DPG program to ensure full execution and oversight. Due to delays in the Afghan budget submission for fiscal year 1390, EGGI advisors anticipate completion of the DPGs by June/July 2011. Finally, EGGI will continue to support the MOF's Tax Policy Working Group to advance Afghanistan revenue collection: As the MOF and the IMF reach agreement on the VAT timeline, the

Working Group will perform a key role to implement the VAT and other IMF-sanctioned tax initiatives. The Tax Policy Working Group's mandate is to analyze revenue-generating mechanisms for Afghanistan and formulate tax policies to recommend to the Minister. Specifically, in the next quarter, the working group will analyze near-term tax initiatives such as the ministerial-proposed, near-term tax increase on vehicle purchases (in lieu of the IMF's proposed tariff increase on petroleum) and long-term tax proposals such as the Value-Added Tax (VAT) -- consistent with approved IMF benchmarks and Afghanistan's overall domestic economic objective of self-sufficiency and sustainability.

Program Budgeting

During Q3, EGGI will work with the MOF to continue assisting assigned budgetary units with the 1390 budget implementation while launching an intensive program budgeting training program and follow-up assistance for 1391 program budget preparation. EGGI will also work with the assigned line ministries to complete the 1390 debriefing sessions for their internal program budgeting implementation teams and for select provincial line directorates for key line ministries. This will help to improve coordination and communication between Central Line Ministries and provincial line directorates in sharing information and providing guidance on execution of the national budget as well as preparation of budget estimates for Central Line Ministry consideration

Provincial Budgeting

EGGI will work closely with the MOF provincial budgeting team to rollout training programs and technical assistance to provincial line directorates of 3 key Central Ministries (Education, Public Health, Rural and Rehabilitation Development) in preparing budget estimates for the 1391 national budget pro-

cess. By the end of the next quarter, EGGI would have provided technical assistance to line directorates in preparation of budget proposals for Central Line Ministry consideration and conducted intensive training programs on program budgeting for Central Line Ministries and their provincial line directorates in preparation for the 1391 national budget process.

Control and Audit Office

EGGI will work exclusively to finalize remaining modules of the audit manual for future use by CAO staff when conducting audits. The manual will cover the essential elements within the four phases of an audit: Planning, Internal Control, Fieldwork, and Reporting.

Monetary Policy, Statistics & Market Ops

During Q3, EGGI will wind down assistance and transition projects to DAB staff, providing the training necessary to ensure continuation of the work. The newly assigned Kabul Zone Economist will receive guidance and mentoring on the SREA and a deputy DG will be mentored on the management of the Zone Economists in Herat and Jalalabad. New briefing templates for the analysis of macro variables will be introduced and staff trained in their production. EGGI will also complete the statistics training course.

Provincial Tax Administration

EGGI will continue to support Medium Taxpayer Offices operations in Herat, Balkh and Jalalabad throughout the tax filing season, however the EGGI expat advisor will be stationed in Kabul. In Jalalabad EGGI will focus on bolstering operations and hiring additional employees.

Looking Ahead: EGGI Goals for Q3

Comprehensive set of future activities will be included in the Workplan.

Looking Ahead: Financial Sector Development

Accounting and Financial Management

EGGI assistance in this workstream will terminate in mid-April. During the final weeks of assistance, EGGI will support DAB's accounting department in the preparation of the year-end financial statements for audit by KPMG.

Kabul Bank Resolution

During the final weeks of EGGI work in this area, the objective will be to complete assistance related to documentation for the resolution program, coordinating with the IMF advisor and DAB officials and completion of

internal management program improvements with the Kabul Bank Conservatorship team and management, in accordance with the SOW. Specifically, these remaining actions will address the review with the Conservator a strategy and methodology for analyzing branch profitability and an approach to a right-sizing program.

Looking Ahead: Private Sector Development

Business Registration (ACBR)

In the following quarter, EGGI efforts to streamline business registration and provide outreach assistance will cease. EGGI will provide support to maintain the ACBR application in Kabul and the provinces.

Commercial Law

EGGI will work to finalize review of the bankruptcy law. Regarding business registration EGGI will work with counterparts to complete a legal review of both Business Name Procedures and ACBR Regulations.

Private Sector Development / DBBI

EGGI will continue to support the five DBBI technical working groups in completing the World Bank's *Doing Business 2012* survey. EGGI will also propose recommendations to GIROA (through MOCI) on how to implement DBBI working group reforms.

Looking Ahead: Gender Mainstreaming

The Women in Government Internship Program is scheduled to end in June 2011. The objective for Q3 is to continue facilitating workshops based on skills development needs identified for the last cohort of interns, and assist interns with networking for employment opportunities after their assignments end.

EGGI Quarterly Training Figures

Quarterly Training Summary

EGGI Stakeholders and Counterparts trained During Q2:

Male: 555

Female: 95

Total: 650

EGGI Q2 Quarterly Training Summary January

Table: Number of Male and Female Stakeholders Trained by EGGI from January - March 2011

Component	GIROA Counterparts	Training Topic	Kabul		Herat		Nangarhar		Balkh		Parwan		Kandahar		Farah		Total by Gender			Number of Training Days	Person Days Trained
			M	F	M	F	M	F	M	F	M	F	M	F	M	F	Males	Females	Total		
1	Ministry of Counter Narcotics	Revenue reconciliation	1	1	-	-	-	-	-	-	-	-	-	-	-	-	1	1	2	7	14
1	Central Statistics Office	Revenue reconciliation	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1	7	7
1	Supreme Court	Revenue reconciliation	2	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	2	7	14
1	Parwan Mustofiat	Qatya & Baqyat automation	-	-	-	-	-	-	-	12	-	-	-	-	-	-	12	-	12	11	132
1	Provincial Representatives from the Governor's Office, Agriculture, Education, Public Health, Public Works, Energy and Water, Transportation, Rural and Rehabilitations Development, Justice, and Provincial Council	Provincial budgeting training including presentations on formulating annual budget estimates (operating and development) and development assistance for Afghanistan's aid management procedures. Officials from Wardak, Logar, Ghazni, Paktya provinces attended.	-	-	-	-	146	9	-	-	-	-	-	-	-	-	146	9	155	2	310
1	Provincial Representatives from the Governor's Office, Agriculture, Education, Public Health, Public Works, Energy and Water, Transportation, Rural and Rehabilitations Development, Justice, and Provincial Council	Provincial Budgeting including 10 modules on planning and budgeting, budget formulation, budget execution, procurement law, program budgeting, and control and auditing techniques. Over 100 officials from Paktika, Wardak and Khost provinces attended.	-	-	-	-	110	9	-	-	-	-	-	-	-	-	110	9	119	4	476
1	Nangarhar Line Directorates, Nangarhar PRT, Nangarhar Tribal representatives, Provincial Council, districts representatives	Special PDC meeting to discuss updating the 2007 Nangarhar Province Provincial Development Plan	-	-	-	-	69	1	-	-	-	-	-	-	-	-	69	1	70	1	70
1	CAO	Principles of External Auditing: Foundation-level audit training to the CAO audit staff	12	-	-	-	-	-	-	-	-	-	-	-	-	-	12	-	12	1	12
1	CAO	Principles of External Auditing: Foundation-level audit training to the CAO audit staff	22	1	-	-	-	-	-	-	-	-	-	-	-	-	22	1	23	1	23
1	Ministry of Higher Education	Excel Training	9	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	9	1	9
1	Ministry of Information Culture and Youth	Chart of Accounts Training	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-	3	3	1	3
1	Legal Training Center	Excel Training	-	4	-	-	-	-	-	-	-	-	-	-	-	-	-	4	4	1	4
1	Ministry of Commerce and Industries	Excel Training	-	7	-	-	-	-	-	-	-	-	-	-	-	-	-	7	7	1	7
1	Upper House	Excel Training	-	5	-	-	-	-	-	-	-	-	-	-	-	-	-	5	5	1	5
1	Mazar MTO	Management and Development	-	-	-	-	-	10	-	-	-	-	-	-	-	-	10	-	10	5	50
1	Mazar MTO	Companies Group Workshop	-	-	-	-	-	6	-	-	-	-	-	-	-	-	6	-	6	1	6
1	Mazar MTO	Taxpayer Refresher Training	-	-	-	-	-	4	-	-	-	-	-	-	-	-	4	-	4	1	4
1	Attorney General's Office	Revenue reconciliation	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1	4	4
1	Farah Mustofiat	Revenue reconciliation	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1	-	1	4	4
1	Balkh Mustofiat	Qatya & Baqyat automation	-	-	-	-	-	33	10	-	-	-	-	-	-	-	33	10	43	5	215
1	Kandahar Mustofiat	Qatya & Baqyat automation	-	-	-	-	-	-	-	-	-	5	-	-	-	-	5	-	5	4	20
2	DAB West Zone Staff	Banking & Financial Services	-	-	25	1	-	-	-	-	-	-	-	-	-	-	25	1	26	4	104
2	DAB East Zone Staff	Technical Writing	-	-	-	-	2	-	-	-	-	-	-	-	-	-	2	-	2	1	2
2	DAB East Zone Staff	Writing the SREA report	-	-	-	-	1	-	-	-	-	-	-	-	-	-	1	-	1	3	3
2	DAB	Basic Statistics	7	14	-	-	-	-	-	-	-	-	-	-	-	-	7	14	21	1.5	32
2	DAB	Basic Statistics	7	14	-	-	-	-	-	-	-	-	-	-	-	-	7	14	21	1.5	32
2	DAB	Basic Statistics	7	14	-	-	-	-	-	-	-	-	-	-	-	-	7	14	21	1.5	32
2	DAB	Conducting Surveys	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1	3	3
3	MOCIA/CBR	ACBR Statistic Report Template	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1	1	1
3	MOCIA/CBR	ACBR Certificate Management	2	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	2	1	2
3	MOTI/ATRA	Accounting and Financial Statement assistance	9	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	9	6	54
3	MOTI/ATRA	Accounting and Financial Statement assistance	9	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	9	8	72
3	MOTI/ATRA	Training to ATRA finance and Audit staff members	8	-	-	-	-	-	-	-	-	-	-	-	-	-	8	-	8	2	16
3	MOCIA/CBR	ACBR Data Quality Control	5	1	-	-	-	-	-	-	-	-	-	-	-	-	5	1	6	1	6
3	MOCIA/CBR	ACBR Data Quality Control	5	1	-	-	-	-	-	-	-	-	-	-	-	-	5	1	6	1	6
3	MOCI, MOF, AISA	Doing Business Indicator briefing	22	-	-	-	-	-	-	-	-	-	-	-	-	-	22	-	22	1	22
Subtotals			131	65	25	1	328	19	53	10	12	0				555	95	650	106.5	1774.5	



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

EGGI Counterpart Meetings

214 meetings with Component 1 GIROA counterparts and stakeholders.

109 meetings with Component 2 GIROA counterparts and stakeholders.

187 meetings with Component 3 GIROA counterparts and stakeholders.

39 meetings with Gender Mainstreaming GIROA counterparts and stakeholders.

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

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Dedicated to Economic Growth

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

