



## Progress Report on Tranche Release

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Project Number: 38122  
Loan Number: 2215  
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### Afghanistan: Fiscal Management and Public Administration Reform Program



## CURRENCY EQUIVALENTS

(as of 25 November 2009)

Currency Unit	–	afghani/s (AF)
AF1.00	=	\$49.13999
\$1.00	=	AF0.02035

## ABBREVIATIONS

ADB	–	Asian Development Bank
FY	–	fiscal year
HRM	–	human resource management
HRMIS	–	human resource management information system
IARCSC	–	Independent Administrative Reform and Civil Service Commission
MAIL	–	Ministry of Agriculture, Irrigation and Livestock
MOF	–	Ministry of Finance
MOPH	–	Ministry of Public Health
MOUD	–	Ministry of Urban Development and Housing
MTFF	–	medium-term fiscal framework
PRR	–	priority reform and restructuring
SOE	–	state-owned enterprise
SDR	–	special drawing right
TA	–	technical assistance
USAID	–	United States Agency for International Development

## NOTES

- (i) The fiscal year (FY) of the government starts on 21 March. FY before a calendar year denotes the year in which the fiscal year starts, e.g., FY2009 starts on 21 March 2009.
- (ii) In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. On 14 December 2005, the Board of Directors of the Asian Development Bank (ADB) approved financial support of \$105 million for the Fiscal Management and Public Administration Reform Program (the Program), a cluster program for the Islamic Republic of Afghanistan (Afghanistan).<sup>1</sup> The approval also included a loan of SDR33,676,000 (\$48 million equivalent) for subprogram 1, and a \$7 million grant for Capacity Building for Institutional Development (the Capacity Building Grant) to support the Program implementation. The Program aimed at developing systems and procedures, supported by increased capacity, to improve budgeting, strengthen resource mobilization, develop the civil service, and enhance the monitoring of public finances. The loan for subprogram 1 was signed on 29 December 2005, and made effective on 3 April 2006. ADB released SDR16,838,000 (about \$24 million) for the first tranche of the loan for subprogram 1 on 6 April 2006.

2. This progress report provides the details of achievements that support compliance with the conditions for the release of the second tranche of SDR13,773,000 under the loan for subprogram 1.<sup>2</sup>

## II. DEVELOPMENTS IN FISCAL AND PUBLIC ADMINISTRATION REFORMS

### A. Fiscal and Financial Management

3. Fiscal and financial management reforms in Afghanistan have progressed well. The government developed a medium-term fiscal framework (MTFF), with ADB support, to provide forward-looking macro resource allocation. However, the link between the MTFF and the government's annual budgeting process needs to be strengthened. The government also piloted program budgeting in selected ministries. It has increased technical capacity in the Ministry of Finance (MOF). MOF now has greater budget predictability, transparency, and comprehensiveness, although further improvements remain needed.

4. MOF has also implemented certain key revenue reforms. It has established large, medium-sized, and small taxpayer offices to improve revenue mobilization. ADB supported the government's action to remove nuisance taxes,<sup>3</sup> and subsequently incorporate legitimate taxes in the Income Tax Law of 2005 as amended. In FY2008, the share of domestic tax revenues to total revenues (41%) surpassed the share of international receipts (35%). However, revenue mobilization remains challenging. Revenue remains at 7% of gross domestic product and taxes at 5%. *Moustufiats*,<sup>4</sup> due to weak capacity and the adverse security environment in many provinces, have been collecting below potential. The government remains committed to overcoming these challenges for revenue mobilization.

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<sup>1</sup> ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster of Loans to the Islamic Republic of Afghanistan for the Fiscal Management and Public Administration Reform Program*. Manila (Loan 2215-AFG and Grant 0030-AFG).

<sup>2</sup> This amount is the undisbursed loan amount of SDR16,838,000 minus the estimated capitalized interest charge during the grace period of SDR3,065,000.

<sup>3</sup> Nuisance taxes are taxes and fees that are collected by various government agencies and local government but do not have any legal basis.

<sup>4</sup> *Moustufiats* are provincial offices of the Ministry of Finance responsible for collecting revenue and carrying out treasury functions.

5. The public financial management assessment conducted by the World Bank and Department for International Development of the United Kingdom in December 2007<sup>5</sup> shows an overall improvement in public financial management. Compared with the June 2005 assessment, also conducted by the same development partners, 18 performance indicators improved, two deteriorated and eight remained unchanged. The 2007 assessment cites several weaknesses, such as:

- (i) large gaps in budget outturns especially for core development expenditures;
- (ii) weak public financial management capacity outside MOF;
- (iii) weak accounting and reporting systems in public enterprises and local governments; and
- (iv) poor internal and external audit systems.

## **B. Public Administration Reform**

6. In 2005, the government carried out public administration reform through priority reform and restructuring (PRR). It aimed to restore basic operating services and create new agencies where vacuums existed. PRR was envisaged to build short-term capacity within ministries to act as an anchor to promote policy reform. The Independent Administrative Reform and Civil Service Commission (IARCSC) oversaw PRR implementation. The main challenge at that time was how to move PRR to the next stage of public administration reform.

7. The Civil Service Law of 2005, supported under the first program tranche, was to prepare for second generation public administration reforms. However, progress with public administration reform has not been smooth. The government decided to prepare a new law<sup>6</sup> to replace certain provisions of the Civil Service Law.<sup>7</sup> Key human resource management (HRM) regulations and procedures concerning the civil service in Afghanistan could not be developed and implemented until the new law was eventually adopted in 2009. Likewise, determining the approach for implementing longer-term aspects of public administration reform took time. These changes had implications on the government's compliance with the subprogram 1 conditions. While the decision to adopt a new law resulted in program implementation delays, it is a positive step forward since the new law incorporates more detailed HRM provisions compared to the Civil Service Law.

## **III. PROGRESS IN SUBPROGRAM 1 IMPLEMENTATION**

### **A. Summary of Compliance with Policy Conditions**

8. Policy actions of the subprogram 1 aimed at strengthening (i) fiscal management, (ii) public administration, and (iii) public management. The second tranche of the loan for subprogram 1 has 24 policy actions comprising 10 tranche release conditions and 14 monitorable policy actions. While most fiscal and financial management reform actions progressed well, legislative changes and lack of project financing for necessary information technology infrastructure delayed the government's compliance with public administration

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<sup>5</sup> Department for International Development and World Bank. 2008. Afghanistan Public Financial Management Performance Assessment. Washington, D. C.

<sup>6</sup> The Civil Servants Law of 2008.

<sup>7</sup> While planning on the pay and grading reform, the government decided to prepare a broad legislation to cover pay and grading reform former and provided detailed provisions to replace the human resource management provisions of the Civil Service Law of 2005.

reform actions. Consequently, the second tranche could not be released in March 2008 as originally envisioned.

9. The government nevertheless made significant progress in 2009. All 10 tranche release conditions for the second tranche have been fully complied with (Table 1 and Appendix 1). Appendix 2 sets forth the status of the monitorable policy actions. Compliance with all relevant policy actions have been confirmed and documented.

**Table 1: Summary of Compliance with Second Tranche Achievement Targets**

Tranche Release Conditions	Status of Compliance
<b>I. Strengthening Fiscal Management</b>	
I.A.1.c. Ministry of Finance (MOF) to introduce the 3-year rolling expenditure and revenue projections to support the development of the medium-term budgeting framework (MTBF)	Complied with
I.A.2.e. MOF and IARCSC shall have fully implemented the action plan on the role of MOF provincial offices—developed as a first tranche condition—in the seven priority <i>moustufiats</i> , and shall have started the implementation in additional 13 provinces	Complied with
I.C.2.c. MOF to (i) review existing licenses and fees, and transfer the responsibility of administering all licenses and fees deemed to be taxes to MOF, and (ii) gazette and publish the consolidated and simplified amended tax code	Complied with
<b>II. Strengthening Public Administration</b>	
II.A.1.c. IARCSC chairman to have submitted at least two reports on IARCSC's performance to the President's Office (president and vice-presidents) and to have published the same on the IARCSC website using a performance management system and performance targets	Complied with
II.A.1.d. Relevant ministries, as agreed in the action plan mentioned under II.A.1.b, to establish and make operational a human resources management unit in their respective ministries, with the following terms of reference: job evaluation and grading, merit-based appointments, personnel management of civil servants in accordance with the Civil Service Law of 2005 related regulations and procedures, and time-bound capacity development benchmarks	Complied with
II.A.1.f. MOF and IARCSC to (i) finalize a first reconciliation of the computerized establishment register, the payroll database, and the HRMS; and (ii) approve procedures for regular subsequent reconciliations	Complied with
II.A.1.h. Chairman, IARCSC and Minister of Finance to approve a time-bound action plan with resources allocated for phase II of the implementation of the Civil Service Law of 2005	Complied with
<b>III. Strengthening Public Financial Management</b>	
III.A.1.a. MOF, in coordination with the controller and audit office (CAO), to prepare and issue (i) a government planning and budgeting operations manual; (ii) a government accounting operations manual; and (iii) a government internal audit operations manual	Complied with
III.A.2.a. MOF to establish a system to monitor (i) revenues of public enterprises and other government entities including funds; and (ii) government subsidies and transfers to public enterprises	Complied with

Tranche Release Conditions	Status of Compliance
III.A.2.b. MOF, in coordination with CAO, to develop and issue a directive on financial reporting requirements to include (i) the minimum financial reporting requirements for all public enterprises, and (ii) public enterprises that are being corporatized or have been prioritized for privatization to submit audited financial statements	Complied with

Source: Asian Development Bank.

## B. Progress on Second Tranche Release Conditions

### 1. Policy Objective: Strengthen Fiscal Management

10. The conditions under this policy component seek to strengthen revenue mobilization and expenditure management. Key reforms are adopting multiyear budgets, restructuring revenue and treasury functions of *moustufiats*, and rationalizing the tax system by removing nuisance taxes.

**a. Policy Condition 1.A1.c: Ministry of Finance (MOF) to introduce the 3-year rolling expenditure and revenue projections to support the development of the medium-term budgeting framework (MTBF)**

11. MOF introduced an MTFE with 5-year revenue and expenditure projections. The budget document has incorporated the MTFE since FY2007. The Capacity Building Grant engaged consultants to support MOF with the MTFE implementation. The use of program budgeting in selected ministries has resulted in more results-oriented budgets. MOF piloted program budgeting in three ministries in FY2007, and gradually expanded it to 16 ministries by FY2009. This policy condition has been complied with.

**b. Policy Condition 1.A.2.e: MOF and IARCSC shall have fully implemented the action plan on the role of MOF provincial offices—developed as a first tranche condition—in the seven priority *moustufiats*,<sup>8</sup> and shall have started the implementation in additional 13 provinces**

12. Based on the Central and West Asia Department's review of the material evidence submitted for the first tranche condition, the following key actions for *moustufiat* reform were identified and considered relevant for the purposes of this second tranche condition:

- (i) Approval of the PRR proposals for *moustufiats*;
- (ii) commencement of the PRR process by starting the staff recruitment process;
- (iii) completion of the PRR process with the recruitment of staff;
- (iv) roll-out of the Afghanistan Financial Management Information System; and
- (v) implementation of capacity building programs in the revenue and treasury sections of *moustufiats*.

13. With regard to the seven priority *moustufiats*, IARCSC approved the PRR proposal for them in 2008. This allowed MOF to restructure the revenue and treasury sections of all

<sup>8</sup> These are *moustufiats* in Balkh, Herat, Jalalabad (Nangarhar), Kabul, Kandahar, Kunduz, and Parwan.

designated priority *moustufiats* using PRR, except Kabul *moustufiat*. Since Kabul is the capital of Afghanistan, MOF decided to streamline revenue and treasury operations around Kabul by having the central office (i.e., revenue and treasury departments) absorb relevant revenue and treasury functions of Kabul *moustufiat*. In these priority *moustufiats*, MOF adopted new organization structures and staff terms of references. New personnel were recruited to fill the positions. The Capacity Building Grant provided under the Program designed and implemented training programs on revenue and treasury management to build capacity within the *moustufiats*. Further, in these priority *moustufiats*, the Treasury Department of MOF introduced the Afghanistan financial management information system, the information technology backbone for treasury operations. With the support from other development partners, the government conducted training for the information system.

14. Beyond the priority *moustufiats*, the government approved the PRR for all non-priority *moustufiats*, and MOF has issued instructions to commence PRR implementation. Ten additional *moustufiats* have undergone the PRR process, and recruitment of staff is ongoing. The Treasury Department of MOF also rolled out the Afghanistan financial management information system in ten non-priority *moustufiats*. Based on the aforesaid development, this policy condition has been complied with.

**c. Policy Condition 1.C.2.c: MOF to (i) review existing licenses and fees and transfer the responsibility of administering all licenses and fees deemed to be taxes to MOF, and (ii) gazette and publish the consolidated and simplified amended tax code**

15. The Revenue Department of MOF has reviewed nuisance taxes and issued instructions to concerned government entities to stop collection of these taxes. From its review, legitimate taxes were incorporated in the Income Tax Law of 2005. Unique to Afghanistan, the Income Tax Law of 2005 covers not only income taxes but also all domestic taxes levied by the central government, except for the airport tax. As such, it functions as the tax code for Afghanistan. Parliament approved the amendments to this law in March 2009; it was then gazetted. Accordingly, this policy condition has been complied with.

**2. Policy Objective: Strengthen Public Administration Reform**

16. Policy conditions on public administration reform are geared towards implementing the Civil Service Law of 2005, particularly, its provisions for HRM. This requires operating HRM units to implement human resource policies and regulations, supported by the appropriate management information system. Compliance with most policy conditions under this component were delayed due to the government's decision to repeal the relevant HRM provisions in the Civil Service Law of 2005 and replace those provisions with a new Civil Servants Law adopted in 2008 (footnote 7). However, securing financing for the management information system was delayed. Technical support from the Capacity Building Grant could not be mobilized as the government changed its approach to implementing public administration reform.

- a. **Policy Condition II.A.1.c: IARCSC chairman to have submitted at least two reports on IARCSC’s performance to the President’s Office (president and vice-presidents) and to have published the same on the IARCSC website using a performance management system and performance targets**

17. IARCSC submitted performance reports for FY2007 and FY2008 to the Office of Administrative Affairs and Cabinet Secretariat, which receives all documents for the President's Office. The reports described IARCSC activities and assessed performance in relation to public administration reform targets in the Afghanistan National Development Strategy.<sup>9</sup> Both reports have been disclosed on the IARCSC website. Therefore, this policy condition has been complied with.

- b. **Policy Condition II.A.1.d: Relevant ministries, as agreed in the action plan mentioned under II.A.1.b., to establish and make operational a human resources management unit in their respective ministries, with the following terms of reference: job evaluation and grading, merit-based appointments, personnel management of civil servants in accordance with the Civil Service Law of 2005 related regulations and procedures, and time-bound capacity development benchmarks**

18. Human resource directorates in the pilot ministries—Ministry of Agriculture, Irrigation and Livestock (MAIL) and Ministry of Public Health (MOPH)—were established in FY2005. Under the approved PRR of MAIL and MOPH, HRM units were restructured and staffed. However, as previously mentioned, the government decided to repeal the relevant HRM provisions in the Civil Service Law of 2005 and replace those provisions with a new Civil Servants Law adopted in 2008. As a result, to guide the operations of the HRM units mentioned above, IARCSC issued a compendium of HRM legislation, regulations, and procedures based on the Civil Servants Law of 2008. Capacity development plans were formulated for the HRM units in MAIL and MOPH. Accordingly, despite the fact that the HRM related provisions in the Civil Service Law of 2005 have been replaced with the Civil Servants Law of 2008 as afore-described, this policy condition has been complied with.

- c. **Policy Condition II.A.1.f: MOF and IARCSC to (i) finalize a first reconciliation of the computerized establishment register, the payroll database, and the HRMS; and (ii) approve procedures for regular subsequent reconciliations**

19. The policy condition aims to improve fiduciary controls for public finances by institutionalizing reconciliation between payroll and personnel records. Problems in securing necessary financing for the human resource management information system (HRMIS) and computerized establishment registers delayed the government's compliance with this policy condition. In late 2007, with support from the United States Agency for International Development (USAID), a centralized HRMIS was established in IARCSC. Its database covers nine government offices: (i) IARCSC, (ii) MAIL, (iii) MOF, (iv) Ministry of Justice, (v) Ministry of Rehabilitation and Rural Development, (vi) Ministry of Urban Development and Housing (MOUD), (vii) Ministry of Water and Energy, (viii) Ministry of Women's Affairs, and (ix) National Assembly (Lower House). Establishment registers are already integrated in the HRMIS. The database is complete for the Kabul central offices, and the MOUD database includes records

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<sup>9</sup> Both interim and full versions.

from the provinces. Work to expand coverage is ongoing. Due to the fact that HRMIS is yet to be implemented in MOPH under the USAID-IARCSC project's work plan, ADB and the government agreed to make MOUD a pilot ministry for the payroll–HRMIS reconciliation as a replacement for MOPH. MOF and IARCSC have reconciled payroll and personnel records in MAIL and MOUD. Also, they have adopted procedures for subsequent reconciliations, which outline responsibilities between ministries, frequency of reconciliation, and corrective measures. Accordingly, this policy condition has been complied with.

**d. Policy Condition II.A.1.h: Chairman, IARCSC and Minister of Finance to approve a time-bound action plan with resources allocated for phase II of the implementation of the Civil Service Law of 2005**

20. As mentioned above, the HRM provisions of the Civil Service Law of 2005 were repealed and replaced with a new Civil Servants Law adopted in 2008. This new law has more detailed HRM provisions than the Civil Service Law of 2005, and will benefit the Afghan civil service. The government has also developed and approved a time-bound implementation plan for the Civil Servants Law of 2008 to satisfy the policy condition. Such implementation plan includes target dates and agencies responsible for preparing and enforcing regulations and procedures to implement the new law. In addition, it shows budget allocations for regulations or procedures that entail significant financial resources, i.e., pay and grading scheme and pension regulations. Accordingly, this policy condition has been complied with.

**3. Policy Objective: Strengthen Public Financial Management**

21. Conditions under this policy objective ensure that fiduciary standards are appropriately implemented. These require the government to have financial management manuals to guide accounting, budgeting, and internal audit. Also, this component seeks the adequate financial monitoring of public enterprises to prevent them from adding to the fiscal burden.

**a. Policy Condition III.A.1.a: MOF, in coordination with the controller and audit office (CAO), to prepare and issue (i) a government planning and budgeting operations manual; (ii) a government accounting operations manual; and (iii) a government internal audit operations manual**

22. MOF approved the manuals required under this condition. The accounting manual was approved and issued in March 2007, the internal audit manual in March 2008, and the budget manual in January 2009. This policy condition has been complied with.

**b. Policy Condition III.A.2.a: MOF to establish a system to monitor (i) revenues of public enterprises and other government entities including funds; and (ii) government subsidies and transfers to public enterprises**

23. In addition to monitoring state-owned enterprises (SOEs)—companies established under the SOE Law of 1960—the cabinet mandated MOF to monitor non-SOEs (public enterprises not established under the SOE Law). A financial monitoring unit was established under the approved PRR of MOF's SOE Department. The principal task of the unit is to regularly monitor the financial position of public enterprises (including both SOEs and non-SOEs). The annual budget allocates financial resources for the unit, and MOF has assigned staff to the unit.

Operating procedures and financial reporting templates were developed and issued in FY2008. This policy condition has been complied with.

- c. **Policy Condition III.A.2.b: MOF, in coordination with CAO, to develop and issue a directive on financial reporting requirements to include (i) the minimum financial reporting requirements for all public enterprises, and (ii) public enterprises that are being corporatized or have been prioritized for privatization to submit audited financial statements**

24. In FY2008, MOF and the Control and Audit Office approved guidelines for financial reporting of all public enterprises, including financial reporting templates. The guidelines require submission of audited financial statements. This policy condition has been complied with.

### **C. Implementation of the Capacity Building Grant**

25. The components of the Capacity Building Grant to strengthen *moustufiat* capacity and the budget process commenced between September and December 2006. ADB fielded consultants to provide technical support. ADB review missions and ADB's Afghanistan Resident Mission monitored implementation progress. The Capacity Building Grant provided the Budget Department of MOF with support for multiyear budgeting and project appraisal for the public investment program. Through the revenue and treasury departments of MOF, it also provided training to the revenue and treasury sections of the *moustufiats*. ADB capacity building support contributed to the government's successful implementation of the fiscal management components of subprogram 1. The unallocated pool of funds of the Capacity Building Grant was used to engage advisors for MOF and support subprogram 1 management.

26. While the component on implementing the Civil Service Law of 2005 was not undertaken, the Capacity Building Grant has supported implementation of HRM reform in line with the objectives of subprogram 1. In 2007, the government asked ADB to use the Capacity Building Grant fund to establish a reform implementation management unit in MAIL. This expanded the component's scope beyond HRM and covered areas such as organizational restructuring and business process reengineering for the entire ministry. ADB's assessment was that such an expansion could have significant implementation risks, and dilute the program's focus on HRM. Further, it might also affect ADB's focus on strengthening the Afghanistan portfolio by not granting extensions or ad hoc changes in scope that went beyond the original objectives. However, as the European Commission, United States Agency for International Development, and World Bank were involved in supporting reform implementation management units in other ministries, the government through alternative arrangements obtained the support needed for MAIL and MOPH.

27. The Capacity Building Grant closed on 31 December 2008.

## **IV. CONCLUSION**

28. The reforms under subprogram 1 have been undertaken in the midst of challenging security conditions and a quickly shifting policy environment. Public administration reforms were particularly hampered by changes in policy directions and lack of needed financing for critical information technology systems. To some extent, the reforms called for under subprogram 1 were overly ambitious in its reform timeline. Necessary practical and feasible adjustments had to be employed to achieve the policy actions, while keeping the program objectives intact. As

such, even with the delay, the government made significant progress in implementing the reforms agreed under subprogram 1. The government remains committed to continuing the reforms and building on achievements under this subprogram. Further, the government has requested ADB to prepare subprogram 2 in 2010.

#### **V. THE PRESIDENT'S DECISION**

29. In view of the overall progress made in the implementation of subprogram 1 of the Fiscal Management and Public Administration Reform Program, as evidenced by the full compliance with 10 relevant tranche release conditions, the President is satisfied that the necessary requirements for the release of the second tranche of the loan for subprogram 1 have been met. In accordance with the established procedure, the President will authorize the release of the second tranche in the amount of Special Drawing Rights 13,773,000 for subprogram 1 of the Fiscal Management and Public Administration Reform Program. The authorization will be effective not less than 10 working days after the circulation of this progress report to the Board.

## IMPLEMENTATION PROGRESS: SECOND TRANCHE RELEASE CONDITIONS

Tranche Release Conditions	Status of Implementation	Submitted Material Evidence
<b>I. Strengthening Fiscal Management</b>		
I.A.1.c. Ministry of Finance (MOF) to introduce the 3-year rolling expenditure and revenue projections to support the development of the medium-term budgeting framework (MTBF).	<b>Complied with.</b> The MTFP (with revenue and expenditure projections) was published together with the FY2008 and FY2009 budgets.	FY2008 budget document (English and Dari)  FY2009 budget document (English and Dari)
I.A.2.e. MOF and IARCSC shall have fully implemented the action plan on the role of MOF provincial offices—developed as a first tranche condition—in the seven priority <i>moustufiats</i> , and shall have started the implementation in additional 13 provinces.	<p><b>Complied with.</b> Based on the Central and West Asia Department's review of the material evidence submitted for the first tranche condition, the following key actions for <i>moustufiat</i> reform were identified and considered relevant for the purposes of this second tranche condition:</p> <ul style="list-style-type: none"> <li>(i) approval of the PRR proposals for <i>moustufiats</i>;</li> <li>(ii) commencement of the PRR process by starting the staff recruitment process;</li> <li>(iii) completion of the PRR process with the recruitment of staff;</li> <li>(iv) roll-out of the Afghanistan Financial Management Information System; and</li> <li>(v) implementation of capacity building programs in the revenue and treasury sections of <i>moustufiats</i>.</li> </ul> <p>PRR proposals were completed for 34 provincial <i>moustufiats</i>, and approved by IARCSC.</p> <p>For the priority <i>moustufiats</i>, all PRRs were implemented, staff recruited, and capacity building activities conducted. The revenue and treasury functions of Kabul <i>moustufiat</i> were absorbed by the central office of MOF.</p> <p>The most important element in <i>moustufiat</i> treasury reform—the AFMIS rollout—was achieved for</p>	<p>IARCSC declaration showing approval of PRR for all 34 <i>moustufiats</i>, both treasury and revenue sections</p> <p>Recruitment notices and selection for revenue and treasury sections</p> <p>Capacity building of revenue sections</p> <p>List of training activities for treasury sections</p> <p>Summary of AFMIS rollout</p> <p>Organogram of <i>moustufiats</i> that underwent PRR</p> <p>Terms of reference of <i>moustufiat</i> staff</p>

Tranche Release Conditions	Status of Implementation	Submitted Material Evidence
	<p>16 <i>moustufiats</i>, including all priority ones.</p> <p>For all non-priority <i>moustufiats</i>, IARCSC approved relevant PRR proposals, and MOF instructed all the non-priority <i>moustufiats</i> to commence the PRR process. 10 non-priority <i>moustufiats</i> have undergone relevant PRR process.</p>	
<p>I.C.2.c. MOF to (i) review existing licenses and fees, and transfer the responsibility of administering all licenses and fees deemed to be taxes to MOF, and (ii) gazette and publish the consolidated and simplified amended tax code.</p>	<p><b>Complied with.</b> MOF reviewed all revenues collected by the <i>moustufiats</i> and all fees and charges identified by the business community as “nuisance” taxes. As a result, MOF (i) instructed collectors to stop collecting revenues that it views as having no legal authority, and (ii) prepared draft legislation (amendments to the income tax law) to address the “nuisance” taxes issue.</p> <p>Amendments to the income tax law have been enacted by Parliament and gazetted.</p>	<p>Letters to government agencies and municipalities on the nuisance taxes</p> <p>Gazetted income tax law and English translation</p> <p>Letter on the Income Tax Law</p> <p>E-mail correspondence of the committee that worked on the review of nuisance taxes</p>
<b>II. Strengthening Public Administration</b>		
<p>II.A.1.c. IARCSC chairman to have submitted at least two reports on IARCSC’s performance to the President’s Office (president and vice presidents) and to have published the same on the IARCSC website using a performance management system and performance targets.</p>	<p><b>Complied with.</b> IARCSC prepared and published performance reports for FY2007 and FY2008, which include performance assessment comparing actual performance against ANDS targets.</p>	<p>Submission letters to the OAACS, who serves as the window for receiving all documents for the President's Office</p> <p>Letter from OAACS clarifying its role and the relationship between OAACS and the President's Office.</p> <p>FY2007 and FY2008 performance reports. The Dari reports and their English translations are posted on the IARCSC website.</p>
<p>II.A.1.d. Relevant ministries, as agreed in the action plan mentioned under II.A.1.b, to establish and make operational a human resources management unit in their respective ministries, with the following terms of reference: job evaluation and grading, merit-based</p>	<p><b>Complied with.</b> HRM units in MAIL and MOPH were established in FY2005 and restructured under their PRRs. HRM units are currently using human resource manuals and procedures issued by IARSCS based on the Civil Servants Law of 2008. Capacity development</p>	<p>Terms of reference of HRM units</p> <p>Time-bound capacity development benchmarks of HRM units</p> <p>Performance reports of the MAIL and MOPH HRM units</p> <p>IARCSC legal framework covering HRM laws, regulations,</p>

Tranche Release Conditions	Status of Implementation	Submitted Material Evidence
appointments, personnel management of civil servants in accordance with the Civil Service Law of 2005 related regulations and procedures, and time-bound capacity development benchmarks.	plans were formulated for the HRM units in MAIL and MOPH.	and procedures  Organogram for MOPH and MAIL HRM units  Letters from MAIL and MOPH indicating they were established in FY2005
II.A.1.f. MOF and IARCSC to (i) finalize a first reconciliation of the computerized establishment register, the payroll database, and the HRMS; and (ii) approve procedures for regular subsequent reconciliations.	<b>Complied with.</b> Treasury Department has a verified payroll database. IARCSC and MOF conducted the initial reconciliation for MAIL (Kabul) and MOUD (whole country). Reconciliation procedures were prepared.	HRMIS-payroll database reconciliation report for MAIL and MOUD  Reconciliation procedures
II.A.1.h. Chairman of IARCSC and Minister of Finance to approve a time-bound action plan with resources allocated for phase II of implementation of the Civil Service Law of 2005	<b>Complied with.</b> Relevant sections of the Civil Service Law of 2005, including Articles 22, 23, and 24, were replaced by the Civil Servants Law of 2008. As a result, the government did not implement the phase I action plan of the Civil Service Law of 2005. Accordingly, the government has prepared a time-bound action plan with resources allocated for the Civil Servants Law of 2008.	Implementation plan of the Civil Servants Law, 2008
<b>III. Strengthening Public Financial Management</b>		
III.A.1.a. MOF, in coordination with the controller and audit office (CAO), to prepare and issue (i) a government planning and budgeting operations manual; (ii) a government accounting operations manual; and (iii) a government internal audit operations manual.	<b>Complied with.</b> All these three manuals have been prepared and issued as required.	Approved accounting manual  Approved budget manual  Approved internal audit manual  Letter confirming the approval of the accounting and budget manuals
III.A.2.a. MOF to establish a system to monitor (i) revenues of public enterprises and other government entities including funds; and (ii) government subsidies and transfers to public enterprises.	<b>Complied with.</b> The cabinet has given MOF and its SOE Department the mandate to monitor SOEs and non-SOEs. A financial monitoring unit was established in the SOE Department, budget was allocated, and staff were recruited. The principal task of the financial monitoring unit is to regularly monitor the financial position of public enterprises (i.e., SOEs and non-SOEs). Operating procedures and	Operations manual for the monitoring system  Approved financial reporting templates  Cabinet order assigning the monitoring of non-SOEs to MOF  Budget allocation for financial monitoring for SOE Department  Terms of reference and Organogram of financial monitoring unit

Tranche Release Conditions	Status of Implementation	Submitted Material Evidence
	financial reporting templates were developed and issued in FY2008.	Recruitment of staff for financial monitoring unit
III.A.2.b. MOF, in coordination with CAO, to develop and issue a directive on financial reporting requirements to include (i) the minimum financial reporting requirements for all public enterprises, and (ii) public enterprises that are being corporatized or have been prioritized for privatization to submit audited financial statements.	<b>Complied with.</b> In FY2008, the MOF, through the SOE Department, and CAO approved the guidelines for financial reporting of all public enterprises, including financial reporting templates.	MOF and CAO approved guidelines for financial reporting, including templates.

AFMIS = Afghanistan financial management information service; ANDS = Afghanistan national development strategy; CAO = Control and Audit Office; FY = fiscal year; HRMIS = human resources management information system; IARCSC = Independent Administrative Reform and Civil Service Commission; MOF = Ministry of Finance; MOUD = Ministry of Urban Development and Housing; MTF = medium-term fiscal framework; OAACS = Office of Administrative Affairs and Cabinet Secretariat; PRR = priority reform and restructuring; SOE = State-owned enterprise.

Source: Asian Development Bank.

### IMPLEMENTATION PROGRESS: MONITORABLE POLICY ACTIONS

Policy Actions	Status of Implementation	Submitted Material Evidence
<b>I. Strengthening Fiscal Management</b>		
I.A.2.d. MOF to develop and approve a strategy and time-bound action plan that will enable participation of key stakeholders (civil society and private sector) in the budget process.	<b>Not completed.</b> The government has adopted a timeline to develop a communication strategy on the budget. A key focus of the strategy is how to improve the participation of the civil society and NGOs in the budget cycle. However, the action plan for the communication strategy is still to be developed.	MOF letter describing (i) the participative process during budget preparation; (ii) initiatives taken to improve the budget transparency; and (iii) timeline on the developing the communication strategy on the budget.
I.A.3.b. FPU to (i) prepare a study on the expenditure projections for the rollout of the “pay and grading” scheme and its impact on the wage bill and budget, the phased integration of the Afghan National Army and police operating expenditures into the budget; and (ii) identify, evaluate, and monitor revenue transfers to provinces.	<b>Partially completed.</b> The first part of the policy action was achieved. FPU prepared a study on the expenditure projections for the rollout of the “pay and grading” and its impact on the budget. The FPU included in the study the impact of phased integration of Afghan National Army and police operating expenditure into the budget.  Discussions with FPU and the Budget Department indicate that no revenue transfers will be made from the central government to the provinces. In addition, no such policy is envisaged in the near future.	Study on expenditure projections of pay and grading rollout  MOF letter stating that no intergovernmental transfers have been made from the national to provincial governments and that such a process is not anticipated in the near future
I.A.3.c. MOF, in consultation with line ministries, to identify results-based indicators for selected sectors, including agriculture, energy, and transport, to support the development, on a pilot basis, of a results-based budgeting system.	<b>Completed.</b> Program budgeting system, which includes results-based indicators, was adopted for selected ministries. It was introduced in three ministries on a pilot basis for FY2007: Ministry of Rural Rehabilitation and Development, Ministry of Public Health, and Ministry of Education. The selection of pilot ministries was based on assessment of their capacity, i.e., the most likely to show success. For FY2008, the system was expanded to four more ministries, including ministries of finance; public works; energy and water; and agriculture, irrigation and livestock. The Ministry of Public Works covers a substantial part	FY2008 budget documents—program budgeting annex (English and Dari)  FY2009 budget documents—program budgeting annex (English and Dari)

Policy Actions	Status of Implementation	Submitted Material Evidence
	of the transport sector. Program budgeting is to be introduced in nine ministries in FY2009, including the Ministry of Transport and Civil Aviation.	
I.B.1.a. The budget committee in coordination with MOF to (i) identify investment programs' and projects' selection criteria consistent with ANDS; (ii) establish a clear scoring system for ranking of such programs and projects; (iii) classify the implementation of individual programs and projects according to an overall risk assessment; and (iv) publish results.	<b>Partially Completed.</b> Project appraisal templates were developed and are being implemented in selected line ministries. The Budget Committee undertakes public investment selection and prioritization. Public investments to be undertaken are incorporated in the budget. MOF adopted a budget prioritization framework. No scoring system was developed.	Project appraisal templates Project classification results using above criteria and procedures
I.B.1.b. The budget committee, in coordination with MOF, to (i) evaluate PIPs' contribution to the Millennium Development Goals (MDGs); (ii) develop a performance monitoring and evaluation framework for ANDS and PIPs; and (iii) publish the analysis of the results.	<b>Completed.</b> The ANDS report covers the fiscal impact on the MDGs, and performance monitoring and evaluation of ANDS. MOF will ensure that the report includes the impact of PIPs.	ANDS annual report MOF letter providing a clarification on the ANDS Report
I.C.1.b. MOF to issue implementation guidelines and procedures for the amended Revenue Act.	<b>Completed.</b> Implementation guidelines were implemented through the income tax manual. Operations procedure manuals for new provisions covering enforcement and tax appeals have been completed.	Approved income tax manual
I.C.3.d. MOF to strengthen the business taxpayer registration system and to implement the following targets: (i) 35,000 taxpayers registered and tax identification numbers (TINs) assigned; (ii) electronic tax filing by the top 50 taxpayers; and (iii) registration and filing of at least 1,000 businesses previously eligible for tax holidays.	<b>Partially completed.</b> Items (i) and (iii) of the policy actions are achieved. About 80,000 TINs were allocated as of July 2008; 28,500 were issued to firms and 28,800 to "individual" single proprietorships, many are businesses previously eligible for tax holidays. By August 2009, the number of TINs issued reached 142,000 (92,000 firms and 50,000 individuals).  Electronic filing is not currently possible since the information technology system is not yet in place. The SIGTAS program is	Letter certifying the number of TINs issued, and registration and filing of businesses formerly eligible for tax holidays were submitted. E-filing is considered to be premature and explained by the letter.

Policy Actions	Status of Implementation	Submitted Material Evidence
	still being installed. In addition, the Revenue Department informed ADB that even if SIGTAS is installed and e-filing is possible, moving to e-filing may be too advanced in the Afghanistan context.	
<b>II. Strengthening Public Administration</b>		
II.A.1.e. Relevant ministries, as agreed in the action plan mentioned under II.A.1.b, and IARCSC to install and operationalize a computerized “establishment register” and an integrated electronic human resources management system (HRMS).	<b>Substantially completed.</b> A USAID project is working with IARCSC to establish the HRMIS. IARCSC has developed a basic HRMIS (incorporating the establishment register) and is operating in nine ministries and agencies (MAIL, IARCSC, MOUD, Ministry of Water and Energy, Ministry of Rehabilitation and Rural Development, Ministry of Justice, MOF, Ministry of Women's Affairs, and the Lower House of National Assembly). In all nine, the database is complete for the Kabul central offices. In MOUD, the database was expanded to cover the entire country. However, the HRMIS rollout excludes MOPH. IARCSC and MOF asked to replace MOPH with MOUD. ADB agreed to the request.	Operating manual Sample output of the system
II.A.1.g. Government to implement “pay and grading” policy approved by the Cabinet in accordance with an approved implementation plan.	<b>Completed.</b> The Civil Servants Law includes pay and grading. IARCSC developed a pay and grading implementation plan, which was approved and is being implemented.	Civil Servants Law of 2008 (gazetted copy) Approved implementation plan Progress report on pay and grading implementation
II.B.1. Government to (i) prepare a concept paper on the role of provincial administration in development planning, and (ii) establish a coordination mechanism in the provinces to improve development planning and aid management.	<b>Completed.</b> The Ministry of Economy prepared a concept paper, Mechanism for the Creation of PDCs, which lists the duties of the PDCs. The first duty is “identification of economic priorities and planning process of development programs.” A cabinet decree was issued to clarify responsibilities between the Ministry of Economy, other ministries and governors with respect to the monitoring of PDC activities.	Concept paper on the Mechanism for the Creation of PDCs Cabinet decree on PDC monitoring
II.B.2. Government to prepare an	<b>Completed.</b> The Ministry of	Inventory of domestic and foreign

Policy Actions	Status of Implementation	Submitted Material Evidence
inventory of nongovernment organizations (NGOs) operating in Afghanistan across sectors and according to their role in public service delivery.	Economy prepared an inventory of nongovernment organizations (NGOs). An official request was sent to the Ministry of Economy to obtain a list of NGOs operating in Afghanistan.	NGOs
<b>III. Strengthening Public Financial Management</b>		
III.A.1.b. MOF to develop and approve a phased strategy for implementing an integrated government financial management information system (IGFMIS), building on AFMIS (with World Bank support) including revenue administration, planning and budgeting, treasury, accounting and financial reporting, and HRMS.	<b>Completed.</b> The Treasury Department adopted the AFMIS rollout strategy plan and system study on 30 September 2006. The strategy includes expansion of the AFMIS to include revenue, budgeting, and HRMIS.	System study Official transmittal letter
III.B.2. MOF to install a computerized cash flow management system, with forecasts prepared for the incoming fiscal year and updated monthly.	<b>Completed.</b> A cash management committee established in April 2007 meets monthly. An Excel system was developed based on the AFMIS to provide cash flow projections.	Note from Treasury Department describing the computerized cash flow management system Sample outputs
III.B.3. MOF to prepare a policy paper on the development of the treasury bills market.	<b>Substantially completed.</b> A position paper on treasury bills was prepared for the Treasury Department by the advisor of the Debt Management Unit on July 2008. However, the Treasury Department informed ADB that the government is not yet in a position to have a clear and coherent policy on short-term debt issuance.	Letter from director-general, Treasury explaining the government's views  July 2008 paper on the issuance of domestic short-term debt.

ADB = Asian Development Bank; AFMIS = Afghanistan financial management information service; ANDS = Afghanistan national development strategy; FPU = Fiscal Policy Unit; FY = fiscal year; HRMIS = human resources management information system; IARCSC = Independent Administrative Reform and Civil Service Commission; MDG = millennium development goals; MOF = Ministry of Finance; MOUD = Ministry of Urban Development and Housing; MTFE = medium-term fiscal framework; NGO = nongovernment organization; PDC = Provincial Development Committee; PIP = public investment program.

Source: Asian Development Bank.