

AusAID Public Financial Management Program

Afghanistan

Program Document

November 02, 2011

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List of Abbreviations

ACSI	Afghanistan Civil Service Institute
ARTF	Afghanistan Reconstruction Trust Fund
ASGP	Afghanistan Sub-National Governance Programme
AusAID	Australian Agency for International Development
BED	Budget Execution Directorate
CPGs	Commonwealth Procurement Guidelines
DAFA	Development Assistance Facility for Afghanistan
DFID	Department for International Development
EGGI	Economic Governance and Growth Initiative
GAP	Gender Action Plan
GIROA	Government of the Islamic Republic of Afghanistan
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
M&E	Monitoring and Evaluation
MBAW	Making Budgets and Aid Work
MC	Managing Contractor
MEF	Monitoring and Evaluation Framework
MoF	Ministry of Finance
NABDP	National Area-Based Development Programme
NCB	National Competitive Bidding
NSP	National Solidarity Programme
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Project
PFMRP II	Public Financial Management Reform Project Phase II
PPU	Procurement Policy Unit
PRT	Provincial Reconstruction Team
PSC	Project Steering Committee
SABP	Strengthening Afghanistan's Budgets Project
SBDs	Standard Bidding Documents
SLGU	Strengthening Local Governance in Uruzgan
TA	Technical Assistance
ToC	Theory of Change
TOR	Terms of Reference
UNDP	United Nations Development Program
USAID	United States Agency for International Development

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1. Executive Summary

Poor budget execution has been identified as a major obstacle to improving service delivery by the Government of the Islamic Republic of Afghanistan (GIROA). Low rates of execution of development budgets have been recorded over the last three Afghan fiscal years. It threatens to impact negatively on the GIROA's ability to act as an effective governing force for Afghanistan as well as the confidence that donors, government stakeholders and the public have in GIROA in this regard.

AusAID conducted a scoping mission in June and July 2011 to identify the causes of the problem and explore possible interventions that could support existing efforts to strengthen budget execution and, thereby, improve service delivery in the longer term. This program document has been developed subsequent to that scoping mission.

Although there are a number of external factors influencing budget execution rates negatively, considerable progress can be made in a number of areas that GIROA can influence. The design mission confirmed that there is significant demand for support from AusAID in this space. The areas identified for AusAID support included:

- Capacity building for budget planning, project design, procurement and financial administration at the central level
- Streamlining procurement processes to allow for better procurement by Line Ministries
- Facilitating budget execution in the strategically important Uruzgan province

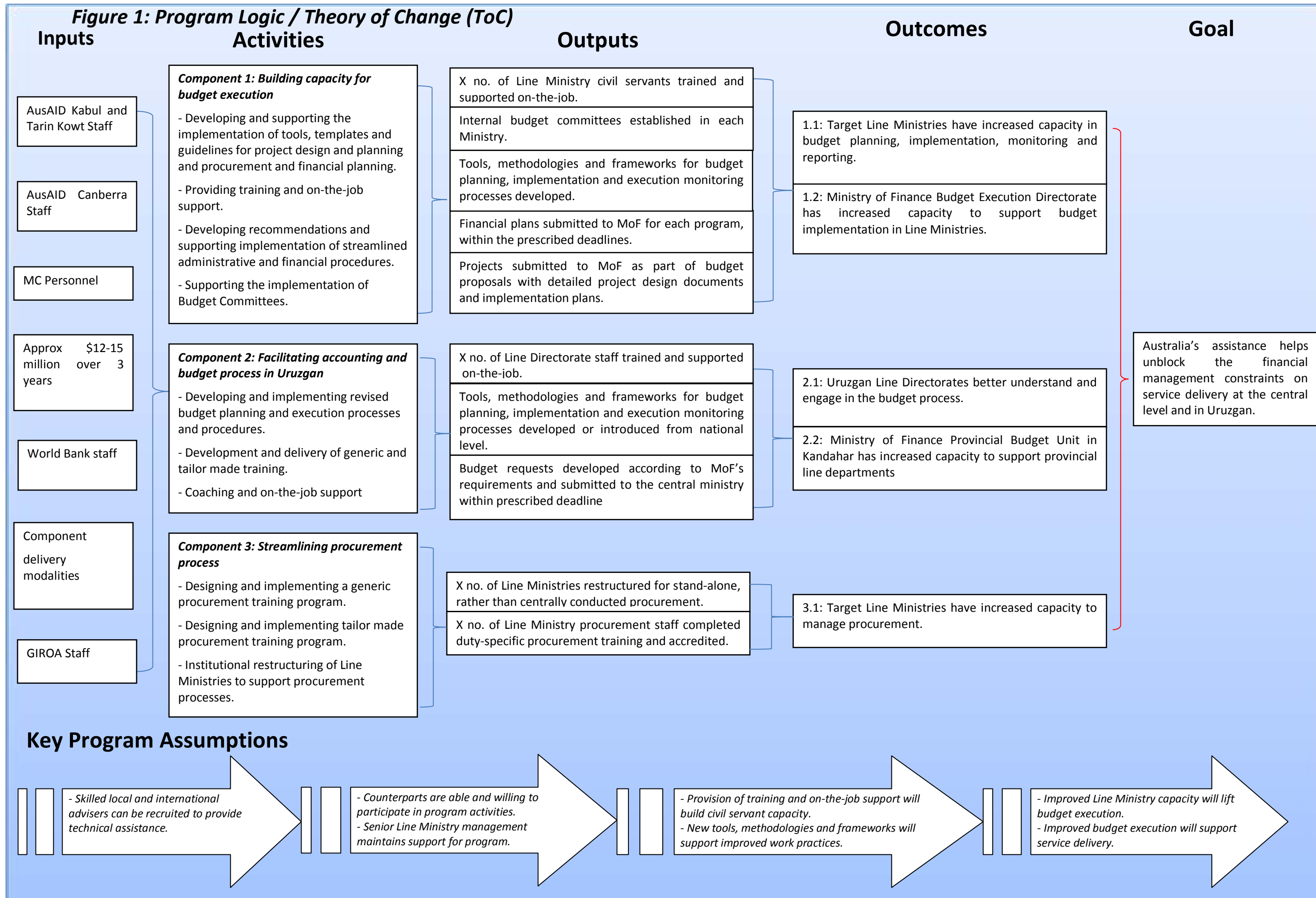
Existing initiatives in these three areas were identified and reviewed. The following interventions were developed in accordance with existing initiatives:

- A bilateral program of Technical Assistance (TA) to key service delivery ministries to build capacity for project design and implementation, financial and procurement planning, budget execution monitoring and reporting. The component has been designed to complement other bilateral and multilateral programs of TA.
- Provision of training and TA to Government directorates in Uruzgan. The component will build on existing regional institutions supporting provincial budgeting.
- Support to the World Bank's new program of financial and TA to improve procurement procedures and processes. Australia's engagement will go beyond a straight financial contribution, and will include active engagement and close monitoring of the project's implementation.

Initial discussions have been held with key stakeholders on the form and content of the proposed initiatives outlined here. Strong support has been registered during those discussions and through this program Australia will create a platform for constructive policy dialogue with the GIROA and other donors based on our credible and prominent role in the sector. In a selected number of key service delivery ministries, Australian assistance will directly contribute to the achievement of the GIROA's goal to raise development budget execution by 10 per cent annually in absolute terms.

The following diagram provides an overview of the program logic and theory of change for this program, including anticipated activities and outputs under each of its key components.

Figure 1: Program Logic / Theory of Change (ToC)



2. Analysis and Strategic Context

2.1 Country and Sector Issues

Since the fall of the Taliban regime in late 2001, nation-building efforts in Afghanistan have run along two parallel tracks. One track has been the establishment of a functioning government that can represent the people, address the development challenges that face the country, manage public finances and serve the people in a professional manner. The second track has been focused on the rapid delivery of services to the people so that standards of living can be raised and support for the Taliban and other resistance movements reduces as people increasingly subscribe to the new Islamic Republic of Afghanistan.

The two tracks have experienced little cross-over as donors have largely used off-budget, non-governmental channels to deliver services. In the first years following the war this parallel process was to be expected. The institutions of government had suffered considerable degradation due to consecutive wars and chronic under-investment in public administration. However, by 2011, some ten years later and after considerable international investment in the capacity of the GIRoA and its public systems, this situation is much harder to justify. The problems with these large expenditures flowing through the external budget (i.e. outside the core budget) have been widely discussed¹, but include: the lack of alignment with government development priorities, weakening of the budget as a policy tool and the principal instrument of national policy, and longer-term issues of fiscal sustainability. At the London Conference in January 2010, the GIRoA and development partners therefore agreed to work together to increase assistance to Afghanistan through the central budget to 50% over the following two years².

The London Conference commitment is even more important as the International Community and the GIRoA move towards the transfer of control of all military operations in Afghanistan to GIRoA's security agencies by 2014. The success of 'Transition' will depend not only on the ability of GIRoA to manage its own security pressures, but also on the ability of GIRoA to deliver essential services, such as health, education, governance and justice. Transferring some degree of control – over where and how these services are delivered – to governmental entities is an essential part of making Transition work. This involves channelling funds dedicated for the delivery of services through GIRoA's budget process so that it can begin to lead implementation of essential services that strengthen the relations between society and the state. In short it involves bringing the two tracks together wherever possible.

A major obstacle to donors providing more funds on-budget is the low level of budget execution that GIRoA has reported over recent years³. In 1388 (2009/2010), the development budget execution rate was 38%, while in 1389 (2010/2011) GIRoA spent only 41% of its development budget. There are many reasons for this poor performance, some of which lie outside GIRoA's control (see [Problem Analysis](#) below). GIRoA has expressed its commitment to resolving the issues that are within its powers to resolve and has articulated this commitment through the Public Financial Management Roadmap (PFM Roadmap), which was presented to donors in July 2010.

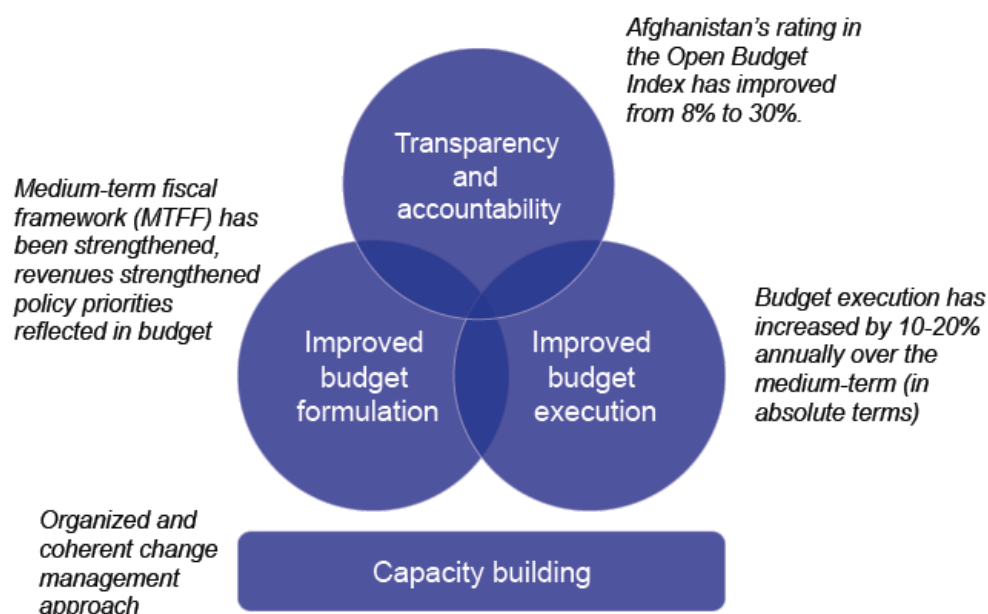
¹ See for example: [OECD Joint Evaluation of the Paris Declaration Phase II \(2010\)](#):

² Assistance is defined as 'on-budget' when funds are managed according to the national budget / treasury procedures of the Government of Afghanistan.

³ [Afghanistan Public Expenditure Review 2010](#).

The roadmap outlines a range of measures to address the key PFM challenges in Afghanistan under three key themes, with a fourth cross-cutting area of capacity building:

Figure 2: Major components of GIROA PFM roadmap, including key three-year targets



The MoF have requested USD 123.1 million to support the implementation of the PFM roadmap over its 3-year lifetime, of which USD 10.5 million (8.5 per cent) has been secured and another USD 23.5 million (19 per cent) is expected to be funded⁴.

There has been strong support for the PFM Roadmap with DFID, USAID and the World Bank providing TA to a wide range of areas of PFM reform. However, there is yet to be a considerable push from donors or GIROA towards achieving the budget execution goals that are set out in the PFM Roadmap. GIROA has expressed a strong interest in receiving support from AusAID in this area and has agreed, verbally, with the concept and approach outlined in this program document.

2.2 Budget Execution Problem Analysis

The GIROA is facing serious problems and challenges in executing intended expenditures, especially in its development budget. The low development budget execution rate is slowing down economic activity in the economy as it directly reduces the flow of investment into the economy and slows down the development process in the country. This in turn is lessening trust of donors, as well as citizens, in the Government's ability to deliver services effectively.

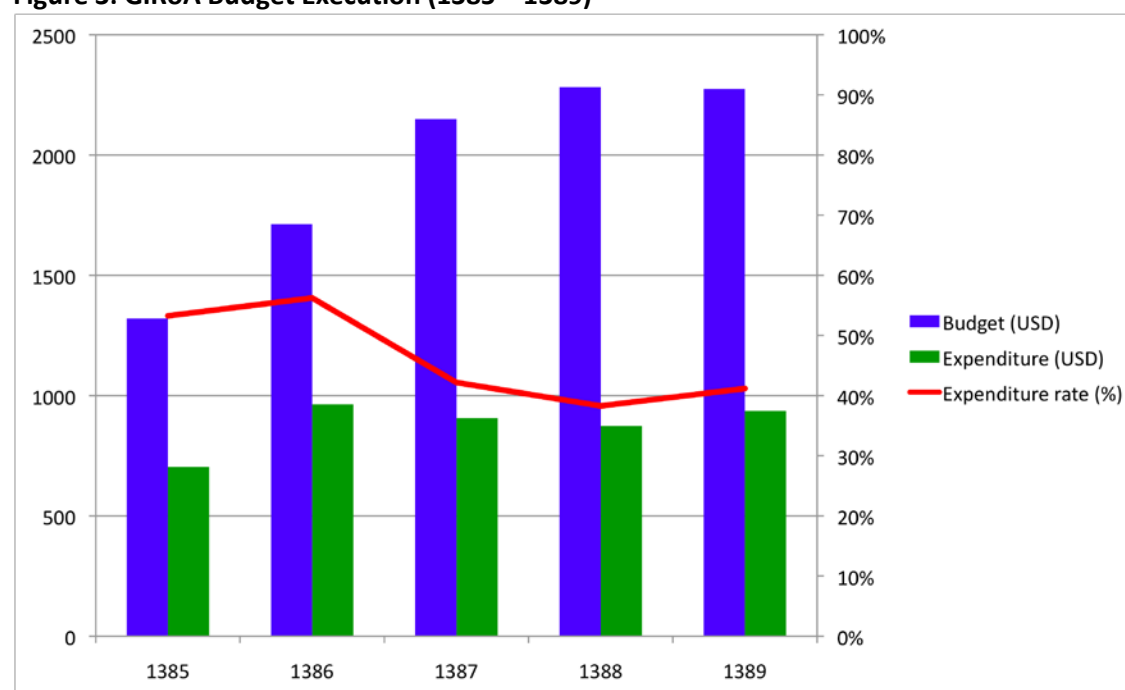
Improving the development budget execution rate is one of the key areas of reform that the GIROA signed up to at the July 2010 Kabul International Conference on Afghanistan. In the Roadmap, the government agreed to increasing budget execution by 10-20 percentage annually over the medium-term by improving performance and capacity development in planning and procurement practices at the provincial level and in line ministries."⁵

⁴ As of July 2011. The PFM Roadmap can be found at: <http://www.mof.gov.af/>

⁵ Public Finance Management Roadmap, Ministry of Finance, July 2010

The approved development budget for 2011 (1390) is US\$2.3 billion, but only 41 per cent was spent, up slightly from 38 per cent in 2010⁶ (1389). This result compares with the GIRoA's intention to increase development budget spending by 10 percent annually, which is the equivalent of increasing execution rates by about 4 percentage points annually.

Figure 3: GIRoA Budget Execution (1385 – 1389)



2.2.1 Key Observations and Findings

A number of studies over the past two years⁷ have examined reasons behind the low level of execution. While there are a range obvious constraints that explain the slowness of public investment, there are potentially substantial returns to such investment if it is sustained. The studies attribute execution problems to long list of factors:

- poor security;
- late approval of the budget;
- the timing of the fiscal year is not ideal;
- carry forwards are substantial;
- poor project design and planning;
- complicated procurement procedures;
- overly complicated and highly centralized administrative procedures;
- lack of capacity among contractors;
- no expenditure monitoring framework;
- very limited understanding of financial management procedures among provincial staff;

⁶ "1389 Budget Execution Presentation", Ministry of Finance, May 2011

⁷ "Obstacles to development budget execution in Afghanistan", Ministry of Finance, PADD Team, December 2009; Key recommendations for improving development budget execution", Ministry of Finance, SAB Project, January 2011; "Quarterly Fiscal Bulletin, Quarter 3, 1389 " Ministry of Finance, Fiscal Policy Unit, February, 2011; "Tentative Analysis of the GoA Core Development Budget", P. Jensen, April 2011

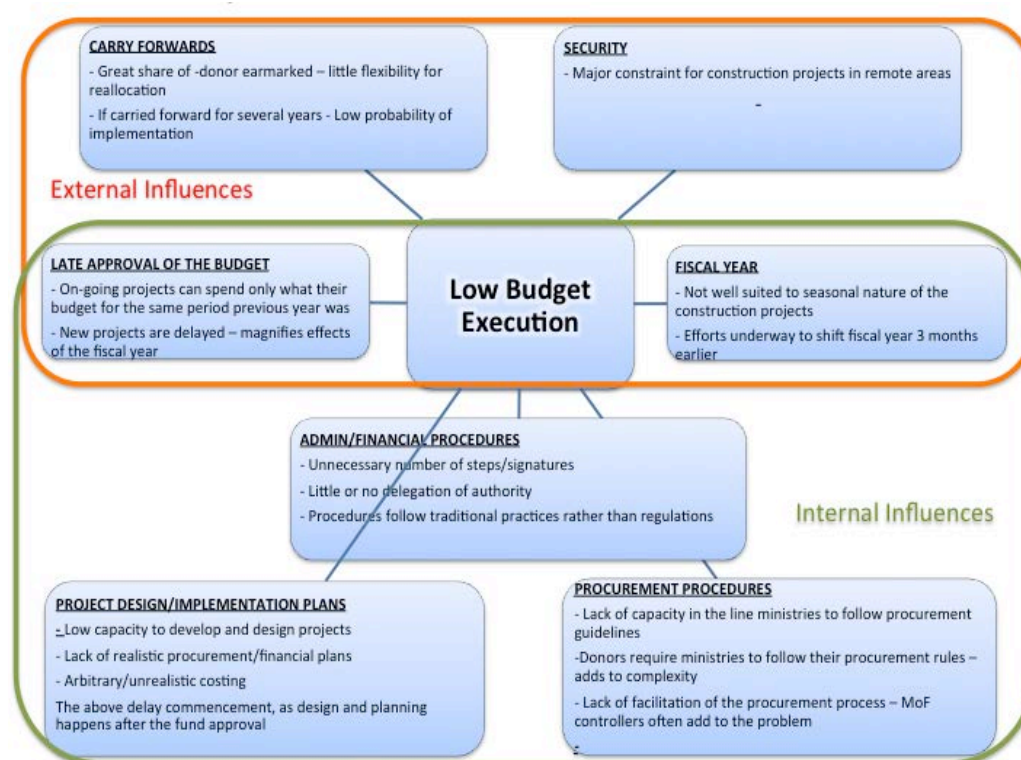
- the role of Moustufiats; and
- the lack of regular communication and support from the Ministry of Finance.

All of the studies indicate a lack of capacity within line ministries and at the provincial level as a key obstacle to effective budget implementation. Interviews conducted during the PFM Mission confirmed these findings⁸. This design argues that the primary weaknesses in execution reflect weaknesses in capacity for:

- procurement
- accounting and
- financial management.

The collective effect of these blockages is to slow and sometimes entirely prevent spending occurring. The factors that have been identified to explain low execution rates are a mix of those in the control of the various ministries and those that are not. Some of the factors are also generic challenges facing the whole public sector in Afghanistan, particularly security. The various factors are now outlined in turn.

Figure 4: Problem Analysis Overview



2.2.2 What lies outside the direct control of GIROA

Carry forwards

A large and, over time, increasing share of the budgets are carry-overs, relating to both discretionary (GIROA funds) and non-discretionary sources (donor funds).⁹ This impasse partially reflects the fact that donors are not willing to allow the Government to reallocate these funds to alternative projects. Therefore, the Government has elected to keep the

⁸ Interviews have been conducted with the representatives of the Ministry of Finance, Ministry of Education, Ministry of Public Health, Ministry of Agriculture and Ministry of rural Rehabilitation and Development, in the period June 27 – July 11, 2011

⁹ "Tentative Analysis of the GoA Core Development Budget", P. Jensen, April 2011

projects in the budget, even though there is a very low chance of them being implemented. This has the effect of keeping measured execution rates lower than they would otherwise. The solution is either for the government to remove the projects, and presume they will not be implemented. An alternative is for donors to permit more flexibility in allocating funds between projects, but this seems less likely to occur.

Security

Security remains to be one of the most often cited reasons for poor execution, especially when it comes to construction projects in the remote rural areas. There are several problems. Finding contractors willing to work in insecure districts and transporting equipment to those locations is not easy. These logistical constraints hamstringing especially the large national projects, such as National Solidarity Programme (NSP) or National Area-Based Development Programme (NABDP) from being rolled out in difficult areas. These logistical challenges leave the budget unspent.

Late budget approval

Although the fiscal year in Afghanistan starts on March 22, 1390 (FY 2011/12), the budget was approved by Parliament well after this date on May 12. Before budget approval, operational spending and projects already approved can continue. However, new projects cannot begin.

Timing of the Fiscal year

The Afghan fiscal year is not well-timed to undertake construction projects in summer and this is a big problem executing development projects. The fiscal year starts in spring, on March 22. It takes ministries up to five months to complete procurement processes. By the time projects are mobilized and construction can start, the summer season is over. This effectively allows only two to three months for construction works to be completed.¹⁰ The Government has proposed changing the fiscal year to commence in December so that procurement processes can take place in winter and construction start in spring. This proposal is before Parliament.

2.2.3 Factors that are within the direct control of GIRoA

Budget data shows that execution of funds appropriated by Parliament is low at 41% in 1389. However, the appropriated budget is never received in full. What's more relevant is the allotted budget – that is, the portion of appropriated budget that is actually approved by the Ministry of Finance to be spent during the year. Allotted budgets are those where procurement processes have been approved and there are also available funds. Ministries manage to spend much more of their allotted budget, 75% in 1389¹¹. The main difference between the amount of appropriated and allotted budget is the amount of completed procurement. This suggests that the most important issues hampering budget execution are:

- under-developed projects, that lack proper implementation plans; and/or
- a poor understanding of procurement procedures by line ministries.¹²

¹⁰ "Obstacles to development budget execution in Afghanistan", Ministry of Finance, PADD Team, December 2009

¹¹ Source: Ministry of Finance, Budget Execution Unit, AFMIS budget execution report, May 2011;

¹² Key recommendations for improving development budget execution", Ministry of Finance, SAB Project, January 2011; "Tentative Analysis of the GoA Core Development Budget", P. Jensen, April 2011;

Problems in project design and implementation plans

The lack of capacity to develop and design projects contributes significantly to poor budget execution. Projects included in the budget often lack basic project design documents, procurement schedules or financial plans¹³. As such, their cost is often unrealistically budgeted, based on arbitrary increases of the previous year's figure rather than specific project estimates. Implementation plans are often completely absent. The project formulation and design process occurs only after funds have been approved. As a result, it takes months after the beginning of the fiscal year before projects can commence.

The Ministry of Economy is officially responsible for developing instructions, templates and guidelines for project design, as well as final sign off on the projects submitted for funding to the Ministry of finance, through the budget project. However, due to a lack of capacity, the Ministry of Economy has not been able to provide any support to the ministries in for project design and planning. As a result, ministries have been trying to use different approaches for project design, often missing important elements, such as procurement, implementation or financial plans.

Procurement process

Delays in procurement are a key factor in slow rates of development budget implementation, even once the procurement plans are in place. The main issue, based on the analysis of ARTF statistics, is a lack of understanding of the procurement process in the line ministries, resulting in poor compliance with the regulations, delays and frequent revisions in the procurement process¹⁴. The capacity gaps in the line ministries regarding procurement procedures is made worse by weaknesses in the Procurement Policy Unit to deploy sufficient numbers of procurement advisers to provide assistance to ministries.

The new World Bank Public Finance Management Project (PFMRP) II has a procurement reform component to provide support to build a stronger procurement management capacity throughout government and to strengthen the institutional framework for procurement. The main shortfall in the first phase of PFMR project has been role of procurement controllers, which have arguably further complicated the process. The next phase of the program adds procurement officers to line ministries, who will be responsible for building capacity and facilitating procurement processes at ministries.¹⁵

Cumbersome administrative and financial procedures

Excessive paperwork also delays operations of the Government. Ministries have to go through an extraordinary number of steps to undertake expenditure.¹⁶ It has become normal to mandate that many different officials must sign each expenditure document. This slows down expenditure processes, as bits of paper sit waiting in in-trays. In addition, ministries do not use the delegations of spending authority that are currently available in the law. In many cases, only Ministers and Deputy Ministers have the authority to approve

¹³ "Obstacles to development budget execution in Afghanistan", Ministry of Finance, PADD Team, December 2009;

¹⁴ "Obstacles to development budget execution in Afghanistan", Ministry of Finance, PADD Team, December 2009; Key recommendations for improving development budget execution", Ministry of Finance, SAB Project, January 2011;

¹⁵ "Project Paper on a Proposed ARTF Grant in the Amount of US\$ 73 mil to the GfRoA for a Second Public Finance Management Reform Project (PFMR II)", May 25, 2011;

¹⁶ "Obstacles to development budget execution in Afghanistan", Ministry of Finance, PADD Team, December 2009;

documents, which creates frequent bottlenecks for spending to be approved. The Ministry of Finance has contracted PKF to conduct capacity assessments in the 14 biggest ministries, looking at the existence and appropriateness of such internal controls.

Budget Execution analysis and monitoring

Another important setback is lack of performance monitoring mechanism in the line ministries. Line ministries lack the capacity for analysis of actual expenditures, identification of key issues or the provision of recommendations to remove obstacles. While key service delivery ministries (Education, Health, Agriculture and Rural Development) use a Budget Preparation and Expenditure Tracking Database,¹⁷ that allows them to effectively track expenditures and generate expenditure reports, very little effort has been put into the analysis of what these reports say about the quality of spending. Furthermore, the reports contain no information on spending progress during the year, so that monitoring of agencies' performance against targets can be undertaken. Essentially, no attempt has been made to use the information available in the system for improving decision making by managers.

Communication is also a problem. In a given line ministry, the finance departments, responsible for the monitoring of budget execution and program departments, responsible for budget implementation have limited communication and coordination, at best. The result is that the program departments lack basic information on their allocated budget, remaining budget and status of expenditures during the year.

Although budget implementation teams exist in a number of ministries, they focus primarily on budget preparation issues. The only ministry where senior management regularly meets to discuss budget execution issues seems to be Ministry of Education. Since 2007, when this practice was originally introduced, the Ministry's execution rate has risen from 25% in 1386 (FY 2007/08) to an estimated 54% in 1389 (FY 2010/11). The MRRD has institutionalized a similar practice in the last quarter of 1389 (FY 2010/11)¹⁸. Finance Director of MRRD has reported that noticeable improvements in the budget execution rate were achieved as a result.

Budget Committees

Considerable delays in the budget execution are also caused by the ineffective implementation of the necessary administrative steps, delays in decision-making, as well as a lack of communication of the implementation issues between finance department and implementing departments in line ministries. Evidence collected so far by the Ministry of Finance suggests that greater involvement of the senior management in budget implementation issues leads to the greater budget execution.

To support their greater involvement in the budget issues and strengthen budget execution, the Ministry of Finance has instructed all line ministries to establish so called *Internal Budget*

¹⁷ Budget Preparation and Expenditure Tracking Database is a customized, locally developed financial management system that allows ministries to prepare program based budget submissions, track procurement, allotment and expenditures, and record assets.

¹⁸ Source: Ministry of Finance, Budget Execution Unit, AFMIS budget execution report, May 2011;

Committees. The Committees are designed to mobilize key decision makers in the line ministries and involve them more in the budget process. The key members of the Internal Budget Committee include: The Finance directorate, Policy and planning directorate and key Programs (implementing departments) directors. Their role will be to provide support to budget preparation and monitoring of budget execution in the ministry. Their work will be overseen by the Budget Steering Committee, chaired by Deputy Minister Finance, which meets quarterly to discuss budget issues.

Communication with Ministry of Finance

A number of officials interviewed in the line ministries complained about the lack of support they receive from the Ministry of Finance. It has been asserted that the Budget Execution Directorate's Sector Officers often act as supervisors rather than facilitators to the budget preparation and implementation process. Going forward, in order for efforts to improve budget execution to be effective, Internal Budget Committees will need to co-operate with and supported by the Ministry of Finance Budget Execution Directorate. This will ensure that their efforts are channelled into the new systems and consistent with the approaches being developed at the centre.

2.2.4 Key Recommendations

The approach that AusAID will need to take to strengthen service delivery in the country needs to be focused on improving line ministries' capacity to execute their budget.

As this problem analysis shows, capacity weaknesses reflect a range of problems and are a major constraint. The lack of capacity in the line ministries to implement is resulting in poor project design, program costing, ineffective procurement implementation, and weak expenditure analysis and monitoring.

Focused support to building capacity of the line ministers in these key PFM areas can generate the most significant improvements in the budget execution. The assistance will be most effective if focused on support for:

- project planning and design;
- developing annual implementation plans (including procurement and financial plans);
- strengthening procurement;
- streamlining administrative and financial procedures, and
- strengthening budget execution analysis and monitoring functions to identify issues as they arise.

This assistance should be linked with support to the Ministry of Finance Budget Execution Directorate, to improve communication with the line ministries and to facilitate budget implementation processes.

This approach is consistent with the recommendations of the previous AusAID PFM mission to establish Implementation Facilitation Teams and provide high-level support to ministries to implement the National Priority Programs (NPPs). The focus is somewhat broader, covering the systematic budget execution issues in the selected line ministries, rather than focusing narrowly on the implementation of the selected NPPs. However, the line ministry

support will clearly need to have a particular focus on key NPPs and improving execution in these, given that NPPs generally account for a large proportion of the development budget in line ministries.

2.3 Past efforts and future plans

2.3.1 Ministry of Finance

As noted above, GIRoA's vision for a better PFM system has been articulated in the PFM Roadmap, developed by the MoF in July 2010. The PFM Roadmap focuses on three key objectives: (i) strengthening the link between budget and key service delivery priorities; (ii) improving budget execution; and (iii) increasing accountability and transparency of Government activities.

Under objective (ii) the most important budget execution reforms implemented include:

- Financial planning – ensuring effective budget implementation, by developing detailed budget implementation plans and breaking down program budgets by month;
- Performance reporting – ensuring effective budget implementation and service delivery by implementing government wide performance (financial and non-financial) monitoring system;
- Provincial budgeting – ensuring responsiveness of the budget to the needs of citizens at the provincial level;
- Procurement – ensuring transparent, value-for-money procurement supports budget execution, by providing capacity building and on the job support in procurement practices and institutional restructuring in the Line Ministries;

Although significant improvements have been made under objective (i), GIRoA is still lagging behind in implementing activities related to improving budget execution and transparency and accountability.

To support their greater involvement in budget policy issues and implementation and to strengthen budget execution, MoF has instructed Line Ministries to establish Internal Budget Committees (as noted above). The establishment of internal Budget Committees is a key element of the MoF's efforts to improve budget execution in Line Ministries.

2.3.2 World Bank

The World Bank has supported the establishment and functioning of a sound PFM system since the launching of the Afghanistan Interim Administration in 2002 – three institutional building projects aimed at establishing legal framework and three investment projects aimed at public administration capacity development. Through this work the World Bank has gained unique insight into PFM in Afghanistan and has established a record of providing successful TA on PFM. The Public Financial Management Reform (PFMR) Project was initiated in 2007 with the objective of supporting core treasury, procurement and audit functions. The PFMR Project was originally focused on assuring basic treasury and audit functions through operations support, with some attention to training and developing the legal framework. This support later expanded to include the development of internal audit and procurement policy and regulations as well as human resource management reforms in the MoF.

The World Bank has now designed and approved a new PFMR Project Phase II (PFMRP II). The project, which is set to commence in late 2011, will have four components:

1. Procurement Reform, providing support to build procurement management capacity throughout government and institutional capacity in the public sector;
2. Financial Management Reform which aims to support high-level PFM performance and build staff and institutional PFM capacity throughout government through support for training, systems development and process renewal;
3. Audit Reform and Performance which aims to improve public sector governance through nine sub-components grouped under Internal Audit and External Audit.
4. Reform Management which aims to support improvement in monitoring and management of TA and human resources in the MoF.

The procurement reform component is intended to provide support to build procurement management capacity throughout government and to strengthen institutional frameworks for procurement. During the first phase of PFMR Project, 'procurement controllers' were deployed by the MoF to improve compliance with the legal framework and report monthly to PPU. While providing an important role as a barrier to abuse by those who might wish to expedite procurement outside the law, the procurement controllers have often been seen as adding to the bureaucracy and complicating further the process, thus slowing budget execution. In phase II of the program, new 'procurement specialists' will be provided to Line Ministries in addition to procurement controllers. These officers will be responsible for building capacity, facilitating procurement processes and tempering the slowing effect of Procurement Controllers.

2.3.3 DFID/UKAID

DFID implemented the "Support to Transforming and Modernising the Budget Formulation Process" project in the Budget Department of MoF, from early 2004 to early 2008, with the objective to improve the efficiency and effectiveness of the budget formulation process, through introduction of program and provincial budget reforms. In 2008, the project was continued by "Strengthening Afghanistan's Budgets at National and Provincial Levels" project (SABP). The SABP has been working with the Budget Department to develop the processes, procedures and practices by which the rest of GIRA prepares, manages and reports their expenditures. The TA provided through SABP includes support to fiscal forecasting (development of a macro-fiscal framework), aid coordination and reporting, budget policy and budget execution as well as transparency, external communication of the budget and budget processes and internal management systems within Budget Department.

SABP has focused on rolling out program budgeting as the means of linking government spending to development priorities. It has recently started working on implementation of government-wide system of performance reporting; introduction of procurement scheduling and financial planning procedures; and restructuring of allotment processes and linking budget disbursement to the procurement schedules; as a means to strengthen budget execution. The existing project is extended to February 2012, and DFID is planning to tender a new three-year project during late 2011.

In addition to Budget Department, DFID has been providing support to Revenue Department of the MoF, through the Tax Administration Reform Project, aimed at improving domestic revenue mobilisation in Afghanistan.

2.3.4 USAID

USAID has been supporting economic governance reforms (including PFM) under a number of programs since 2003. Most recently, the Economic Governance and Growth Initiative (EGGI) has provided TA in the following areas:

1. Policy advisory support to the Minister of Finance;
2. Budgeting reform in approximately 15 Line Ministries (supporting both the roll-out of program budgeting and provincial budgeting in Line Ministries);
3. Tax administration reform;
4. External audit;

The focus of the program has been largely on budget preparation, with little attention given to budget execution. The EGGI approach to ‘graduating’ ministries from assistance has been based on capacity to successfully submit program budgets, rather than capacity for budget execution.

However, USAID is proposing a new program of PFM support that will support the MoF and Line Ministries, including in the provinces, to increase the core budget execution rate for both operating and development budgets. The concept note for this project proposes to work to improve the GIRoA’s internal allocation processes, focusing on moving funds through the system faster and with appropriate controls.

2.3.5 UNDP (multiple donors)

Since 2004, the UNDP has implemented the Making Budgets and Aid Work (MBAW) Project, which has supplied highly-skilled individuals to work within the MoF in civil servant positions. This project has been instrumental in providing TA to work with counterparts to define new procedures, processes and practices within the Budget Department and other key MoF departments.

A concept paper for a new phase of the MBAW has been presented to donors in April 2011 reflecting an evolution in UNDP support and an expansion of the program in three components: 1) budget planning and management; 2) development strategies and policies; and 3) development delivery management and development of sustainable PFM capacity at the national level. Donor support for this new approach is constrained by the concern that MBAW has not yet addressed the core issue of sustainability in the Budget Department, which remains staffed primarily by national consultants.

2.3.6 AusAID

Australia has had a series of targeted engagements in PFM in Afghanistan dating from 2001. This support has contributed to improvements in aspects of GIRoA’s PFM system and has been well-received by the GIRoA. Most recently, a senior AusAID official led a team providing support to the MoF in the lead-up to the Kabul conference in July 2010. This work was focused on identifying major constraints to budget execution in the context of national priority programs. Although appreciated by GIRoA, this support has not been systematic. The challenge now is to develop a coherent and prioritised set of actions that are aligned with Afghan priorities.

2.3.7 Other interventions

In addition to the major programs above, many donors are directly and indirectly supporting a number of PFM-related activities in the MoF. The table at Annex 4 briefly outlines these.

2.4 Lessons learned

AusAID’s PFM design mission identified a number of lessons that have been learned from some of these substantial recent efforts to address budget execution issues in Afghanistan. These lessons are expanded on in much of the analytical work that has been completed by

the World Bank, donors and the GIRoA, and have been addressed in the design of this proposed program. The following summarises some selected conclusions from this work.

2.4.1 Lessons learned from GIRoA efforts to improve budget execution

- The full budget cycle includes project planning, design, formulation, implementation, payment, monitoring and reporting. For budget execution to be improved it is necessary to strengthen each stage in a budget cycle. Hence, successful PFM project should provide capacity building and support to Line Ministries in implementing activities at each stage.
- Efforts to streamline administrative and financial procedures need to take place in the context of existing legislation, regulations, systems and customs, rather than re-inventing new mechanisms that would take much longer to be understood, accepted and absorbed by civil servants.
- Evidence collected by the MoF suggests that greater involvement of senior management in budget implementation leads to better budget execution.¹⁹
- For programs to be effectively implemented, there needs to be regular and strong communication of any budget and/or financial management issues between Finance Departments, responsible for financial management, and Program Departments, responsible for program implementation, within Line Ministries.

2.4.2 Lessons learned from donor efforts in PFM

- Each ministry has a different organizational structure reflecting different stages of program budget implementation and integration of the operating and development budget functions. When positioning its support, TA needs to take into account the specific circumstances and level of institutional development in each ministry.
- Capacity building efforts have often fallen into a 'capacity substitution trap' where whole departments have been manned by contracted staff that cannot be wound back without serious disruption to Ministry activities. While some amount of capacity substitution may be necessary at early stages of implementation, it is important to have longer-term plans in place from the beginning to ensure a gradual phasing out of substitution activities and sustainable capacity building efforts.
- Where capacity building efforts have been made, they have often been directed toward national contracted staff making capacity building efforts unsustainable. Contracted staff, while possessing a higher level of PFM knowledge, English language and computer skills, are not bound to the Government and have demonstrated high turnover over the years.
- Efforts to implement program budgeting across all budgetary units has, in many cases, come at the expense of quality. Results frameworks have been weak and costing has been poor, leading to program budgets that provide very little basis for accountability or service delivery improvements. A greater focus is needed on improving the linkages to tangible outputs and outcomes and on stronger costing norms and less focus on simply "getting program budgeting rolled out".

¹⁹ The only ministry where senior management regularly meets to discuss budget execution issues seems to be Ministry of Education. Since 2007, when this practice was originally introduced, the Ministry's execution rate has risen from 25% in 1386 (FY 2007/08) to an estimated 54% in 1389 (FY 2010/11). MRRD has institutionalized similar practices in the last quarter of 1389 (FY 2010/11). The Finance Director of MRRD has reported that noticeable improvements in the budget execution were achieved as a result.

- Line ministry capacity for budget execution is the most significant gap in donor support: some programs have focused on Line Ministry capacity but worked on budget preparation with little attention given to budget execution. Other programs have focused on budget execution capacity at the MoF alone, only recently in the Budget Department but for some time in the Treasury Department.
- There is a very limited accounting and audit profession in Afghanistan due to an acute shortage of qualified professionals, and programs therefore need to be established that can help to develop a sustainable resourcing approach to ensure qualified staff. Incentives need to be considered to ensure that civil servants can be retained after capacity building has been provided.
- Sustainability of PFM assistance is challenged when experienced staff move from Line Ministries to work on projects outside the budget or in the private sector. Civil servants need to be the focus for capacity building efforts.
- Good donor coordination and consultation is necessary to ensure that programs do not replicate activities or overlap mandates.
- While classroom training is important, on-the-job support is a more effective model of capacity building. Advisers located in the same office as their counterparts are much better placed to address the management issues that often prevent adoption of good practices (eg. resourcing, time management, communication, clarity of expectations). Thus, advisers (both national and international) should be embedded in Ministries to ensure engagement in the day-to-day processes of the Ministries and the tailoring of most appropriate assistance.

2.4.3 Lessons learned from AusAID's past efforts

- AusAID's assistance and advice has been well-received by GIROA because it has been led by senior Australian Government officials with significant PFM expertise. However, this support is not sustainable and has not been systematic. A more coherent and prioritised set of actions that are aligned with Afghan priorities is needed.
- AusAID needs to have a deep understanding of complex sectors such as PFM to engage effectively in a constructive and informed debate and avoid loss of oversight over programs engaging in sensitive areas. AusAID should look at ways to strengthen its in-house expertise to engage in complex and sensitive areas in PFM.
- Given AusAID's limited staffing and financial resources, and the significant investments other donors are already making in the PFM sphere, it is important that AusAID's efforts are targeted to those areas where we can best add value and which will have the greatest impact on our objectives.

2.5 Rationale for AusAID involvement

Australian assistance to Afghanistan focuses fundamentally on *'building the Afghan Government's capacity to deliver basic services and provide economic opportunities to its people'*²⁰. Improvements in PFM systems will help efforts to align funding with Afghan priorities, to deliver more aid through Afghan systems and, ultimately, to improve the level of service delivery to the people. Promoting a sound PFM framework is therefore a critical element of Australia's overall development assistance strategy in Afghanistan and directly contributes to the aid program's overarching goal.

²⁰ 'Australia's strategic approach to aid in Afghanistan, 2010-12'.

Weak budget execution is also a critical priority for the GIRoA to address: it is a technical problem, a major political liability and a constraint on the GIRoA's legitimacy. It is also a major impediment to the ongoing process of international transition to Afghan authority, since donors cannot channel more funding through the Afghan budget which it may not be able to spend. A well-designed and well-implemented program of support to address this issue will, therefore, create a platform for constructive policy dialogue with the GIRoA and other donors based on our credible and prominent role in the sector.

During the scoping mission for the design of this program, AusAID officials met with universal support for Australian intervention on budget execution and strong demand for our involvement. Subsequent discussions with MoF representatives on the modalities chosen for AusAID support have also been met with strong support.

3. Program Description

Program Goal: Australia's Public Financial Management assistance helps unblock constraints to service delivery at the central level and in Uruzgan.

Goal result indicators:

- Development budget expenditure in each target central Line Ministry increases by 10 per cent annually.
- Development budget expenditure in each target Uruzgan Line Directorate increases by 5 per cent annually.

This design confirms that contributing to GIRoA's budget execution target (10-20 % as articulated in the PFM Roadmap) is the central goal of Australia's PFM assistance. Although it is acknowledged that better budget execution will not necessarily improve the quality of services delivered to the Afghan people, this program aims to ameliorate one of the key constraints. A corresponding result indicator for Uruzgan, aligned with the PFM roadmap target, has also been identified based on what is considered realistic given the capacity constraints at the provincial level.

In aligning Australia's assistance behind GIRoA's goal, the program recognises that achieving these targets is not wholly within the control of this or any other single program. GIRoA programs and other donor interventions will significantly impact on this goal, and its achievement will also be influenced by exogenous factors. However, the program activities are intended to make a substantial and measurable contribution.

3.1 Target Line Ministries

As noted in the 'goal result indicators', Australia's PFM assistance will be focused on a limited number of target beneficiary ministries: the Ministry of Education, the Ministry of Public Health, the Ministry of Agriculture and the Ministry of Public Works. These four Line Ministries were collectively accountable for 42% of the development budget in 1389 (2010/11) and accounted for around 51% of actual development budget expenditures in that year.

In addition to their large share of the development budget, these Ministries have been selected based on:

- Alignment with broader Australian aid efforts in Afghanistan – these Ministries are responsible for delivering services across the majority of AusAID’s priority sectors²¹.
- Alignment with GIRoA reform efforts – these Ministries have all been selected to be part of the national provincial budgeting pilot.
- Gap in other program support – these four Ministries have all “graduated” from EGGI support and no longer receive dedicated PFM assistance. Previous EGGI assistance was limited to the implementation of program budgeting, so these Ministries have never received TA support in the areas proposed under this program.

The Program Design Mission identified marked differences in organizational structures and progress in implementing PFM reforms across the four ministries. For example, in some ministries the Finance Department is responsible for both operating and development budget planning and strongly coordinates its activities with Program Departments. However, in other ministries operating budget planning function sits under Finance department, development project planning under Policy Department, and Program Departments are only responsible for activity implementation, often lacking any information on the available budget. These differences make a flexible approach to capacity building across the ministries a priority, as well as close coordination with the Ministry of Finance to ensure consistency.

3.2 Proposed Program Components and Outcomes

The program goal above will be achieved through focused capacity building efforts in the four key service delivery ministries and the MoF, as well as their provincial Line Directorates in Uruzgan. The assistance will be implemented through delivery of generic and tailor-made training and on-the-job support in a number of areas critical for effective budget implementation and, hence, service delivery. This program is, therefore, a capacity building initiative at its core. As such, the program proposes three components, with corresponding capacity building outcomes, as outlined in table 1.

Table 1: PFM Program Components and Outcomes

Component	Outcome (s)	Details
1. Building capacity for budget execution (approx \$7.25m over three years)	1.1: Target Line Ministries have increased capacity in budget planning, implementation, monitoring and reporting. 1.2: MoF Budget Execution Directorate (BED) has increased capacity to support budget implementation in Line Ministries.	Implemented by a contractor selected and directly managed by AusAID. Component 1 will support policy, planning and finance officers in 4 target Line Ministries, and will support the roll-out of internal Budget Committees to monitor and analyse expenditure on a systematic basis.
2. Facilitating improving budget and financial management processes in Uruzgan (approx \$3.2m over three years)	2.1: Uruzgan Line Directorates better understand and engage in the budget process. 2.2: MoF Provincial Budgeting Unit (PBU) in Kandahar has increased capacity to support Uruzgan Line Directorates engagement in the budget process.	Implemented by a contractor selected and directly managed by AusAID. Component 2 will fund an additional position in the MoF PBU’s regional office in Kandahar, and provide a local PFM adviser to be rotated through service delivery directorates.
3. Streamlining procurement processes (approx \$3.3m)	3.1: Target Line Ministries have increased capacity to manage procurement.	Recognising the comprehensive assistance the World Bank will be providing to support procurement, Australia will direct its assistance in this area through the World Bank’s PFMR II

²¹ The 4 pillars of AusAID’s “strategic approach to aid in Afghanistan” are: enhancing basic service delivery in health and education; supporting rural development and livelihoods; improving governance and the effectiveness of the Afghan Government; and supporting vulnerable populations.

Component	Outcome (s)	Details
over three years ²²)		Project (via the Afghanistan Reconstruction Trust Fund (ARTF)). PFMR II Project implementation will be closely monitored, and will be linked to the assistance provided under component 1.

Each of the program's three components directly contributes to the overarching goal of unblocking PFM constraints on service delivery. Sustainable capacity building of Line Ministries (and Line Directorates in Uruzgan), will be the main focus for the program, however, in each case capacity building will be anchored in the MoF to ensure consistency and alignment with policies and guidelines.

3.3 Forms of Aid proposed

3.3.1 Component 1: Building capacity for budget execution

The AusAID program design mission identified significant constraints in Line Ministry capacity to develop, design and implement projects and a lack of formalised performance monitoring and analysis of expenditure. There are also severe communication breakdowns between Finance and Program departments within Line Ministries.

The MoF emphasised that Australia could derive the greatest return on its investment by building Line Ministry capacity for budget execution. In particular, MoF officials noted that although there are several donor-funded projects working on improving budgeting, line ministry support is severely lacking. While some projects work exclusively within the MoF (as is the case with the DFID- and UNDP-funded projects), others do not focus on the most important service-delivery ministries (as is the case with the USAID-funded EGGI, which has phased out its support to some of the largest ministries). Although UNDP's concept note for the new MBAW project indicates it will provide some support to Line Ministries, this support appears more focused on liaison with the MoF and donor support for this initiative has not yet been confirmed. However, if it does go ahead, this support would be high level and would not duplicate, but rather complement any support provided by AusAID in the same Line Ministries.

To fill gaps in Line Ministry PFM support, it is proposed that AusAID will support each of the four 'Target Ministries' with three embedded national advisers:

- A National Financial Planning Adviser – responsible for guiding ministry staff on implementation of the MoF guidelines and instruction; providing formal training and on-the-job support to the Finance Department staff in the area of financial planning; developing costing norms and methodologies for the purposes of standardized financial planning; and developing recommendations and supporting implementation for streamlining administrative and financial procedures.
- A National Budget Execution Monitoring and Reporting Adviser – responsible for developing frameworks and tools, and providing formal training and on-the-job support to the finance department staff in the areas of budget execution tracking, analysis and reporting for the purposes of internal and external monitoring of budget spend.
- A National Project Design Adviser – responsible for designing templates and guidelines for project design, and providing training and on-the-job support in projects development to the Policy and Planning Directorate staff.

²² Notional allocation of Australian funding to the PFMR II Project based on share of ARTF funds contributed by Australia in SY1389 (4.7%) applied to total PFMR II Project grant value \$70m.

The advisers will be embedded in the Line Ministries, which will enable them to establish and maintain daily contacts with their counterpart. Their assistance will include development of tools and methodologies, development and delivery of formal training as well as on-the-job support – for each main stage of the budget planning, implementation and monitoring and reporting cycle. All advisers embedded in the Line Ministries will be national, which will allow them to more effectively communicate with counterparts (civil servants) and build their capacity.

The focal point for this support to Line Ministries will be the internal Budget Committees. These Committees are expected to receive strong back up support from the MoF who will be closely monitoring their progress through monthly budget execution monitoring meetings.

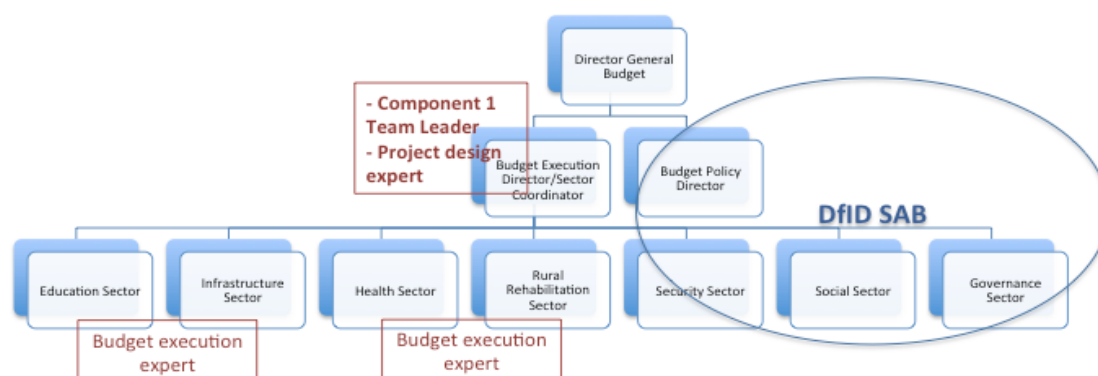
Figure 5: Line Ministry Organisational Chart



In line with the GfRoa's advice to the design team, the assistance to Line Ministries will be centrally coordinated from the MoF's BED, where the Component 1 team leader, an international, and two additional international advisers will be located. The two advisers, or 'Budget Execution Experts' will be embedded in the BED (Budget Sectors). They will be responsible for supporting MoF Budget Officers in communication of budget planning and execution policies with the targeted Line Ministries, and analysis and assessment of their budget submissions (budget request and implementation reports). They will also supervise and mentor the 12 national advisers deployed to the Line Ministries, taking responsibility for two Ministries each.

This support to the MoF will complement the existing DFID-funded project within the Ministry, which does not currently have a significant focus on the BED (see diagram below).

Figure 6: Ministry of Finance Organisational Chart



A total number of 12 national advisers and 3 international advisers will be deployed under this component to the four Line Ministries and the MoF – this two-pronged model is consistent with recommendations from AusAID’s PFM team that worked in the MoF in July 2010, and will help unblock PFM bottlenecks in the ministries where it matters most.

Component 1 will provide a strong platform for Australia to engage credibly and constructively with the GIRA on key development policy issues and share its knowledge and experience. However, the cooperation and support of Line Ministries and close coordination with the efforts of existing programs of TA will both be critical to the success of this component. The availability of skilled Afghan advisers and the availability of counterparts in the Line Ministries will also be a constraint.

3.3.2 Component 2: Facilitating accounting and budget processes in Uruzgan

The PFM capacity constraints that exist at the central ministry level are replicated and magnified in Uruzgan, where the lack of understanding of budget and accounting procedures in Line Directorates is a major obstacle to better service delivery²³. Given Uruzgan’s strategic importance to Australia²⁴, supporting PFM at the provincial level is an important component of Australia’s broader PFM assistance program.

There are few existing donor initiatives that directly support PFM capacity at the provincial-level and none that operate in Uruzgan. However, the MoF (with support from the USAID-funded EGGI) is leading efforts to provide provinces with a greater say in the preparation of the national budget. It has recently established five regional Provincial Budgeting Unit (PBU) offices (Kandahar, Mazar, Jalalabad, Helmand and Herat) to provide general PFM training to provincial authorities throughout the year. Uruzgan is covered by the Kandahar regional office, however Uruzgan officials rarely participate in trainings provided in Kandahar.

To help facilitate Uruzgan’s participation in the national provincial budgeting initiatives, it is proposed that AusAID supplement the PBU’s regional office in Kandahar, with an additional provincial budget officer who will be spending 50% of his/her time in Kandahar and 50% of his/her time delivering training to the provincial authorities in Uruzgan. This will effectively establish a part-time satellite office in Uruzgan, as per the diagram below:

Figure 7: Ministry of Finance Organisational Chart



²³ See findings from Uruzgan mission at Annex 5.

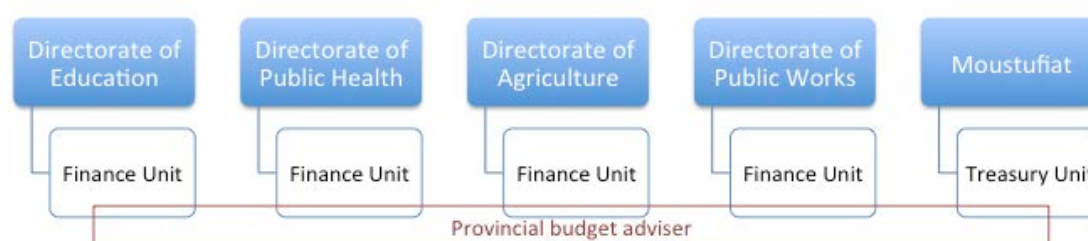
²⁴ Australia leads the multinational Provincial Reconstruction Team in Uruzgan, and has over 1500 troops based in the province.

The Regional Provincial Budget Officer will have the following primary duties and responsibilities:

- Rolling-out budget planning and execution training to all provincial Line Directorates and the Moustufiat.
- Examining current provincial budgeting processes and recommending improvements for provincial involvement in budget formulation, execution and reporting.
- Facilitating logistics and organisation for provincial budget training programs and related events in Uruzgan and Kandahar

In addition to the provincial budget officer, the program will provide a full-time local adviser, situated in Tarin Kowt, to be rotated through the Finance Units of each target ministry line department, and the office of the provincial representative of the MoF (Moustufiat). The adviser will be embedded in the targeted Line Directorates, enabling daily contact with his counterparts, as per the diagram below:

Figure 8: Uruzgan province



The adviser will be responsible for:

- Developing and delivering training and on-the-job support to the Finance Officers of each Line Directorate in budget preparation, execution, monitoring and reporting.
- Helping to facilitate budget planning and budget execution in Line Directorates.
- Analysing Line Ministries' expenditures in provinces and providing guidelines in line with provincial budgeting policy and objectives.
- Working closely with the Governors' office, the Directorate of Economy and other Line Directorates to find bottlenecks and problems in budget execution.

Component 2 activities will already be under implementation through the existing GIZ-managed, Strengthening Local Governance in Uruzgan (SLGU) Project which is aimed at 'providing capacity building and coaching to key service delivery line directorates'. Contracting and management arrangements for the two national advisers deployed under this component will be reviewed during the inception phase and, subject to AusAID agreement, may be moved into a sub-contracting arrangement let by the Managing Contractor or taken over by the Managing Contractor entirely.

An important aspect of Component 2 will be identifying gaps that may emerge as transition proceeds. The Budget Reform Unit and the PBU within the MoF is organizing itself to address gaps in capacity and facilitate training where needed. These two units will benefit from inputs from Component 2 advisers, who should be communicating with these two units in a systematic way, using indicators for identifying progress in closing the capacity gap. As transition nears we expect communication between Component 2 and central agencies, over the gaps and the risks they pose to stability during and after transition, such as the MoF to intensify.

Another important benefit of Component 2 will be in the sharing of lessons learnt from Uruzgan with the target Line Ministries and advocating for appropriate solutions to be applied across all provinces, resulting in overall improvement in service delivery by these ministries, throughout country.

However, due to its geographical isolation, there is a risk of lack of supervision over this component's activities, and ineffective support. Without a strong program management focus in Kabul to provide the bridge to central policymaking, and regular monitoring and oversight of the Uruzgan-focused activities by the PRT and provincial administration, the program will not achieve the desired impact.

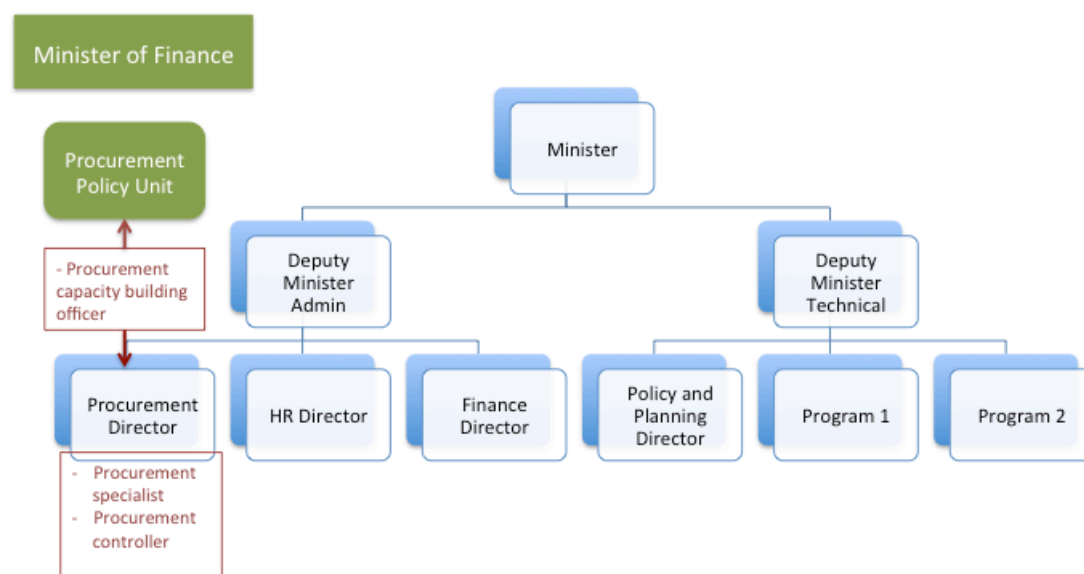
3.3.3 Component 3: Streamlining procurement processes

The most recent design mission, previous missions in 2010, and other AusAID and donor assessments have all noted that delays in procurement are slowing development budget implementation. These delays frustrate program implementers, lead to inefficient and ineffective service delivery, and disenfranchise local communities.

Recognising these challenges, the World Bank's PFMR II Project will include a USD 21.5 million 'procurement reform' component which aims to "build procurement capacity of staff throughout government". As part of this component, a program of training and TA will be established for the PPU of the MoF, the Afghanistan Civil Service Institute (ACSI), as well as to 25 central Line Ministries through embedded assistance. The program will finance three kinds of procurement advisers in Line Ministries:

- Procurement Capacity Building Officers will be deployed to deliver procurement training programs to procurement officers within each ministry. A training program for the Officers will be provided to enable them to assume these responsibilities.
- Procurement Controllers, who were introduced under the existing PFMR project in 2009, to help ensure that Line Ministries prepare reliable procurement plans.
- Procurement Specialists, who will help prepare and effect the more complex procurement in 25 key ministries. These posts will be twinned with local staff to transfer knowledge and skills and will be phased out over the life of the project.

Given the comprehensive assistance the World Bank will be providing to Line Ministries to support more effective procurement, Australia will direct its assistance in this area through the World Bank's PFMR II Project (via the ARTF). However, to safeguard this investment and ensure the project maintains a focus on supporting procurement 'facilitation' rather than simply 'control', AusAID will require dedicated PFM and procurement advisory support to inform in-country engagements with the World Bank and other donors around the PFMR II Project. While recognising that the program cannot expect tailor-made reports beyond those produced under the PFMR II Project, up to date information and analysis will be critical for the kind of strong engagement AusAID needs to influence – and have visibility of – the impact of World Bank supported procurement support in Line Ministries.

Figure 9: Line Ministry Organisational Chart

The progress of PFMR II Project implementation will need to be closely watched, and feedback on the effectiveness of procurement advisers in the target Line Ministries will be sought on a regular basis. This will be done through existing PFMR II Project reporting, but also by linking this component to the assistance provided under Component 1 to provide a strong source of feedback on the effectiveness of the World Bank program.

3.4 Key partners and stakeholders

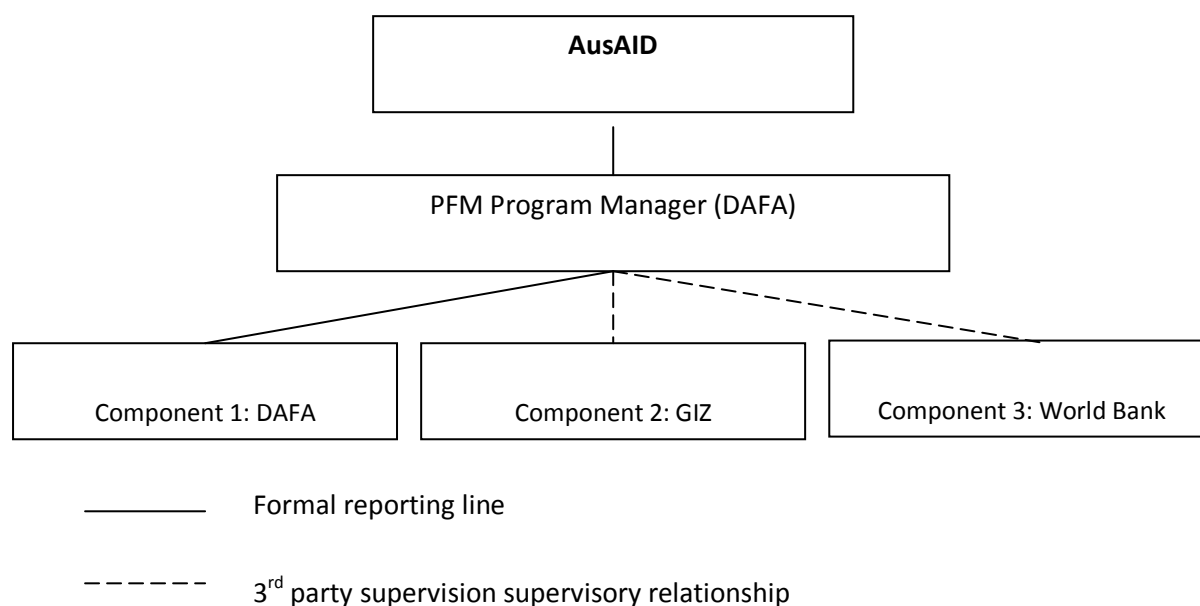
Table 2: Proposed PFM Program Partners and Stakeholders

	Line Ministry Areas	MoF Areas	Programs / Donors
1. Building capacity for budget execution	Deputy Minister Admin, Director Finance and Director Policy and Planning.	Deputy Minister Finance, Director General Budget and Budget Execution Director (Sector Coordinator).	MBAW (UNDP), EGGI (USAID), SAB (DFID)
2. Facilitating accounting and budget process in Uruzgan	Provincial Line Directors, Provincial Finance Officers in Line Directorates, Moustufi	Director General Budget, Budget Policy Reform Director, and Provincial Budget Unit Manager.	EGGI (USAID), ASGP (UNDP)
3. Streamlining procurement processes	Deputy Minister Admin, Director Finance/Procurement	Deputy Minister, Finance, and Procurement Policy Unit Manager.	PFMR II (World Bank)

4. Implementation Arrangements

As noted above, Components 2 and 3 will be implemented by established implementing partners (GIZ at least initially for Component 2 and the World Bank for Component 3). However, each of the three program components contribute to the overarching PFM program goal and they will therefore be managed together as a coherent whole. AusAID's increasing presence in Afghanistan provides the capacity to undertake enhanced engagement but on the ground access to PFM technical expertise for day-to-day program oversight will remain a significant constraint.

Figure 10: Summary of Implementation Arrangements



To this end, the management and governance of the program will be combined into a single framework implemented under the AusAID Development Assistance Facility for Afghanistan (DAFA)²⁵. The DAFA Managing Contractor will provide overall oversight of the program so that, where possible, activities can complement each other, lessons can be learned and political engagement by AusAID can be as informed as possible. The Managing Contractor will therefore perform both program management functions and extensive liaison and advisory functions on behalf of AusAID.

4.1 Management and Governance Arrangements

4.1.1 Program Management

The Managing Contractor will establish a Program Office in Kabul, including a dedicated, full-time Program Manager and any necessary support staff. It is proposed that the Program Office be located centrally, in offices that are readily accessible to GIRoA, AusAID and development partners. Equality of access is essential to establishing the program as a neutral entity.

The Program Manager – an experienced, international PFM expert – will be responsible for developing a working model for co-ordination of all three Components under the umbrella of the program. He/she will be responsible for technical day-to-day management and some aspects of representation, and will liaise with AusAID and GIRoA on a regular basis. The Managing Contractor will ensure that all aspects of program operations are managed either by the Program Manager or by administrative officers assigned to support the Program Manager. The latter would provide the Program Manager with the ability to perform an important additional role, which will be to act as a technical PFM adviser to inform AusAID's approach to the sector more broadly, and in particular to provide briefing and technical advice in advance of engagements with GIRoA, the World Bank and other donors.

The Managing Contractor will also be expected to ensure adequate representation in Tarin Kowt to effectively manage the outputs associated with Component 2.

²⁵ See DAFA scope of services for more information

A short-term international Monitoring and Evaluation (M&E) Adviser will be recruited to finalise the program's M&E framework during the program inception phase and will be deployed on a regular basis to assess progress against targets. An additional short-term international Project Design Adviser supporting development and revision of the project design framework will be working with national Project Design Advisers (embedded in the Line Ministries) and rotate among target Line Ministries.

Given the importance of sustainable capacity building to the success of this program, a short-term International PFM Capacity Development Adviser will also be required to continually refine the methods and tools for PFM capacity building. This will initially involve capacity assessments, analytical work and consultations during the inception phase, and a tailor-made approach will be adapted over the three years to ensure appropriate measures are taken to facilitate greater ownership of the program.

Full-time advisers employed under Component 1, including the Component Team Leader, will be embedded in the Line Ministries (Finance, Policy and Planning departments) and in the MoF (BED of the Budget Department).

In summary, the Managing Contractor will be responsible for:

- Providing administrative oversight and managing the implementation of the capacity building programs and activities envisaged in Component 1 and providing 3rd party supervision and technical advice on progress of Components 2 and 3.
- Providing logistical support and security for any Kabul and Tarin Kowt staff.
- Selecting, briefing and mobilising all advisers associated with Component 1 (and potentially Component 2) and supervising, supporting, managing and monitoring their performance to ensure it meets standards outlined in approved TOR.
- Reporting to AusAID on the progress of all Components and providing technical analysis and advice where directed to inform AusAID's engagement with the World Bank and other implementing partners to ensure lessons from all program Components are inform one another.
- Establishing and implementing appropriate monitoring and evaluation systems and methods, including a program-wide Monitoring and Evaluation Framework (MEF) and measureable component-level inputs, activities, outputs and outcomes. In the case of Component 3, this will involve incorporating the inputs, activities, outputs and outcomes that will be supported under the PFMR II Project into the broader AusAID MEF.
- Undertaking program and activity planning and review through the development of annual plans for the program for consideration by GIROA and AusAID. In the case of Component 3, this will involve developing a monitoring and engagement plan for the PFMR II Project.
- Establishing and maintaining systems for financial management, human resource management, contract management, quality assurance, project planning and review, and resource allocation.
- Maintaining effective working relationships with key stakeholders including Government agencies, other AusAID-funded activities, multilateral agencies and donors.
- Ensuring coherence and quality of approach across the broad program.

4.1.2 Project Steering Committee

The GIRoA has a major role of setting priorities (particularly through the implementation plan of the PFM Roadmap), identifying and advising on needs, and ensuring an appropriate and productive level of donor coordination in PFM activities. Collaboratively, with AusAID, the GIRoA will determine the overall strategic directions for the support to be provided through the program. Technical counterparts for the program have been identified under section 3.3 above. During the Inception Phase, these counterparts will be confirmed, in order to avoid any conflicts in the directions and support provided.

To this end, component 1 and 2 coordination and oversight is proposed to be managed through a Project Steering Committee (PSC). The PSC will be established to provide cross-ministerial oversight and guidance and will comprise of representatives (ideally at Deputy Minister level) from MoF and four Line Ministries, the Director General Budget of MoF, the Managing Contractor (including Program Manager and Component 1 Team Leader) and AusAID Task Manager. The PSC would be chaired by the Deputy Minister of Finance or his delegate. It will meet six monthly in-line with AusAID technical monitoring missions.

The primary responsibilities of the PSC will include:

- Building understanding and ownership among counterparts of the support provided through the program;
- Ensuring program implementation proceeds according to schedule and continues to meet the needs of the counterparts;
- Overseeing delivery of results through the review and endorsement of annual plans and quarterly reports;
- Endorsing changes to the program design and/or annual work plans;
- Facilitating information sharing and coordination; and
- Promoting and supporting implementation of the reforms carried out by the program.

For Component 3, project coordination and oversight rests with the PFMR II Project Steering Committee, which was established in 2006 to maintain focus on results, ensure good communications and provide a consolidated view of the reform under the project.

4.1.3 AusAID in Afghanistan's role

AusAID's increasing presence in Afghanistan provides the capacity to engage more directly with Afghan Ministries on PFM issues. The Minister Counsellor and other Kabul-based staff will play an enhanced and increased representational and liaison role, while improved security operations in Tarin Kowt have increased the Development Advisors' (DevAds) engagement with provincial government departments.

In summary, AusAID in Afghanistan will be responsible for:

- Establishing and maintaining the strategic direction of the program.
- Providing support to the implementation of activities and conducting regular review meetings with the Program Manager.
- Engaging with other donors on PFM issues and aspects of the program as necessary to ensure coordination and complementarity.
- Monitoring (at a program-wide level) capacity building activities funded under the program, including the work of advisers in Kabul and Tarin Kowt. This will require regular

dialogue with beneficiary Line Ministries in Kabul and Provincial Directorates in Tarin Kowt.

- Engaging, where possible and appropriate, with the PFMR II Project Steering Committee, with input and support provided by the MC.
- Identifying and ensuring continuation of productive linkages to other AusAID programs and those of other donors.
- Overseeing contract management and administration with the Managing Contractor.

4.1.4 AusAID in Canberra's role

Despite the increased presence in-country noted above, this design recognizes that access to in-house technical expertise will continue to be a constraint in the management of this program. Representational and monitoring efforts will therefore be supplemented with short-term technical inputs from Canberra (both from the Afghanistan and Economics & Public Finance Sections).

In summary, AusAID in Canberra will be responsible for:

- Supporting the establishment of the program during the inception phase with project management resources deployed from Canberra.
- Providing supplementary PFM technical expertise, including the provision of a PFM program officer as AusAID's contact point for the program in Canberra and the mobilisation of 6-monthly PFM supervision missions.
- Undertaking regular program reviews and reporting on program implementation and achievements to the Government and Australian public.
- Overseeing contract management and administration with the Managing Contractor.

4.1.5 Donor Coordination

The Australian Government endorses a growing momentum towards greater harmonisation and alignment of development activities between donors and GIRoA and among the donors in the PFM sector. The establishment of the TA Coordination Cell within the Office of the Deputy Minister of Finance is expected to contribute significantly toward this goal²⁶. AusAID's representative will participate regularly in the TA Coordination Cell meetings organized by the Office of Deputy Minister Finance and other donor coordination mechanism to ensure full integration and coordination of its assistance with the efforts of GIRoA.

Particular attention will be paid to coordinating with the initiatives funded by DFID, UNDP, USAID and the World Bank.

4.2 Monitoring & Evaluation

An overview of the program goals, outcomes, outputs and activities is provided under section 1, Program overview diagram. This information is expanded and elaborated on in the draft PFM Program Monitoring and Evaluation Framework (MEF) (provided at Annex 1). The MEF will be the primary means for assessing, analysing and reporting on the outcomes and

²⁶ The TA Coordination Cell in the MoF aims to coordinate all PFM TA projects supporting either the MoF or Line Ministries, in order to provide strategic direction and avoid any duplication of efforts. The TA Coordinator will organize regular meetings with all PFM TA projects operating in Afghanistan to coordinate and discuss any issues in their implementation.

impact of activities funded under the program. The MEF is designed to provide AusAID and GIROA with specific information on:

- whether the program is being effectively implemented as planned; and
- whether the program is achieving its intended objectives.

The MEF is therefore designed to operate at four levels:

1. **Goal:** The program Goal has a long-term time horizon so achievement will be assessed over the whole program timeframe (although progress will be measured annually with the Afghan budget cycle).
2. **Outcomes:** program outcomes will in many cases require additional customised data collection and/or analysis to provide indicators of progress. Evaluation at the outcome level will be undertaken after the first 18 months of implementation through a Mid-Term Review. The M&E Specialist will facilitate data collection and analysis.
3. **Outputs:** activity outputs will be specified for each Component of the program. Details of activities and indicators will be progressively developed over the life of the program, but are included in the draft M&E framework as indicative. Reporting on the outputs will be done on a quarterly basis and will form the basis for discussion at the PSC meetings. Evaluation of these outputs will be undertaken on a semi-annual basis, in advance of each six-monthly AusAID supervision mission. The M&E Specialist will facilitate data collection and analysis.
4. **Inputs:** activity inputs will be monitored throughout implementation in order to provide program management and both governments with data including on resource utilisation and cost. Reports on activities implementation will be part of regular reporting to AusAID, and will form basis for the PSC meetings.

In the unique case of Component 3, all data to inform the MEF will be drawn from the results-based M&E system for the MoF strategic plan and the PFMR II Project that has already been established.

The appointed Managing Contractor will be required to assess the draft framework, and confirm and finalise this by end of Inception Phase, including all baseline and milestone indicators. The Managing Contractor will be responsible for the ongoing monitoring and reporting for the program, and data should be consolidated, analysed and reported to the MoF and AusAID on a quarterly basis.

Short monthly reports will be required during the first six months of the program to summarize activities over the month and highlight any important developments. It may be agreed to reduce these to monthly "exception reporting" that will only be required to bring issues or risks to the attention of relevant staff once the program is well-established.

An independent Mid-Term Review (after 18 months) and Independent Completion Report (at the conclusion of the program) will be commissioned by AusAID. Standard AusAID Quality at Implementation Reports will be completed on an annual basis, and the Managing Contractor will be expected to provide information to inform these reports.

To further support effective reporting on the program, a number of other reports and operational/policy documents²⁷ are required of the Managing Contractor. These include:

- Program Establishment Report

²⁷ Refer also to Scope of Services: "Reporting Requirements"

- Sustainable Capacity Building Strategy
- Monitoring and Evaluation Strategy
- Gender Action Plan
- Staffing maps, identifying GIRoA officials with key roles in program implementation and their links to other donor funded activities
- Revised Risk Management Framework consistent with the AusAID 'risk calculator' approach
- Annual Workplans
- Project Completion Report
- Annual Audit Report
- Financial Reporting
- Program Assets Register

4.3 Implementation Plan

The program is expected to commence in July 2012, with a 2-3 month inception phase followed by an implementation phase of 31 months and a final evaluation phase of 2-3 months. In total, the program will run for 35-37 months until September 2015.

- **Inception phase (2-3 months)** – develop the right methodologies, identify the budget execution framework that is most likely to be used in the long-term, assess indicators of success that will drive the right kind of capacity building (i.e. focused on sustainable and meaningful change) and develop consensus with all the stakeholders on the purpose of the program, the capacity building approach and schedule for transferring responsibility to ministry staff; contracting and management arrangements for the national advisers deployed under the component 2 will also be finalised during this phase, and the advisers will be mobilized and trained by the MoF in this period. Component 3 will already be operating, so this period will establish the operating and engagement with the World Bank around this component.
- **Year one (7 months)** – commence capacity building training under Components 1 & 2 while providing significant quantities of capacity substitution;
- **Year two (12 months)** – continue capacity building and on-the-job support while scaling down capacity substitution. Mid-term review conducted to evaluate progress and recommend future actions.
- **Year three (12 months)** - embed activities in the day-to-day operations of the ministry / Line Directorates. Components 2 & 3 to conclude in December 2014, during the third year of program implementation.
- **Evaluation phase (2-3 months)** – monitor the work of the Line Ministries and the MoF without providing assistance, assess remaining capacity gaps, highlight these to management within those ministries and provide any training to management on how to use the tools and systems developed over the course of the program.

A detailed schedule for implementing the program is provided in Annex 2.

4.4 Procurement Arrangements

The procurement will be conducted in accordance with:

November 02, 2011

- The Commonwealth Procurement Guidelines (the Guidelines) issued by the Minister for Finance and Deregulation;
- GIRoA legislation and other policies that interact with procurement;
- AusAID's Chief Executive Instructions and internal procurement policies aligned to the Guidelines, including AusAID's policy on mandatory procedures for Australia's aid program procurements.

As per Commonwealth Procurement Guidelines (CPGs) regulation, the mandatory procurement procedures will be applied for the selection of the DAFA Managing Contractor, which will then implement the PFM program. The procurement for the DAFA Managing Contractor will be openly tendered in accordance with the procedures in the Guidelines, with limited options for directly sourcing suppliers. The open tender procedures will include: publishing tender conditions and content, specifying conditions of participation and technical requirements, amending tender documentation, setting time limits and awarding contracts.

All procurement under Component 3 will be administrated in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011. "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011 and the provisions stipulated in the Financing Agreement. The World Bank's Standard Bidding Documents, Requests for Proposals, and Forms of Consultant Contract will be used. Goods following National Competitive Bidding (NCB) procedures shall be procured using the agreed Standard Bidding Documents (SBDs) for Afghanistan.

4.5 Sustainability Issues

Budget execution speaks directly to sustainability. Institutional strengthening and capacity development of civil servant staff will bring about the improvements and changes necessary to ensure sustainable gains in budget execution. Furthermore, if ministries can unblock the spending bottlenecks within their finance systems then it can help to build capacity among civil servants. Currently, where projects are not being funded and activity levels are low (due to low budget implementation), it is very difficult to build capacity. Hence, the first task of the program will be to develop tools, methodologies and institutional arrangements that will unblock those funding bottlenecks. Once funds begin to flow effectively through the ministry systems the program efforts will be focused on building capacity of the civil servants to implement those tools independently and effectively. As a result, over the medium-term horizon the need for expensive TA or for time-consuming off-budget projects and initiatives should reduce significantly. Together, the three components support processes in Line Ministries that can unblock these financing bottlenecks and ensure sustainable approach to capacity building efforts.

4.5.1 Support to existing government priorities

The Components are aimed to support implementation of the reforms defined by the MoF in the PFM Roadmap, endorsed by the Cabinet in July 2010. By aligning directly with reforms that the GIRoA is fully committed to and is already taking steps to implement, the change envisaged in this program will be sustainable beyond the timeframe of this specific intervention.

This program will be specifically supporting a number of reforms identified under Component 2 'Budget Execution' and Component 4 'Capacity Building', cf. the table below:

Table 3: GIRoA PFM Roadmap Reforms to be supported by AusAID

PFM Roadmap Component	Details	AusAID contribution
Sub-component 2.A: Provincial budget	Capacity building package to be conducted in 14 provinces, to include training in PFM reform areas.	Component 2: Develop and deliver PFM specific capacity building program delivered in Uruzgan province, all provincial directorates; provide on-the-job support to 5 line directorates in Uruzgan province
Sub-component 2.B: Procurement	Institutional restructuring to support procurement practice. Procurement training and certification process, to be eventually carried out across all Budgetary Units Government officials will be trained in public procurement practice.	Component 3: Support restructuring of procurement units in all line ministries to allow them to conduct stand alone procurement. Develop and deliver duty-specific procurement training for procurement staff in line ministry and mustofiat.
Sub-component 2.C- Performance monitoring	Line Ministries submit detailed financial plans that incorporate resultant cash flows from procurement plans, against which performance can be monitored. MoF's Budget Department will monitor the budget execution rate with special focus on Top 50 projects and at same time this department will be organizing meetings with top ten ministries (contributing almost 81% of total development budget) about their low execution rates.	Component 1: Support provided to four line ministries in developing financial plans, incorporating procurement schedules and cash flow projections. Support work of the internal Budget Committees in four Line Ministries to conduct analysis and assessment of budget execution on regular basis. Support four Sectors within the Budget Department to analyze budget execution data and monitor budget execution of relevant ministries.
Component 4: Capacity building	Capacity building program will be developed and delivered in budget preparation, execution and monitoring and reporting to all Line Ministries.	Component 1: Develop and deliver capacity building program (formal training and on-the-job support) for four Line Ministries (out of 24 line ministries in total) in the area of budget preparation (project development and design), execution (procurement and financial planning) and monitoring (budget execution analysis and reporting).

All three program components are aimed at developing tools, methods, skills and procedures for implementing policies and guidelines prescribed by the MoF, as well as building capacity of the Line Ministries in implementing these tools and procedures. Thus the program is supporting an existing government initiative and not creating new efforts.

4.5.2 Implementation aspect of sustainability

The implementation plans for the components are also designed to maximize the sustainability of the program:

Component 1, through embedding a Team Leader in the BED, builds connections with the MoF and helps to link activities and efforts undertaken by the team directly to the Budget Department where policies are designed. Working with the Budget Department on a day-to-

day basis will build trust with counterparts and ensure ownership of the reforms implemented, which is critical for ensuring sustainability. Sustainability and effectiveness of the reforms will be further anchored in the establishment of internal Budget Committees, the work of which will be supervised by the MoF through regular monthly meetings at the senior management level. The approach to providing TA under Component 1 will also follow a model which reinforces the transfer of responsibility to civil servants over time.

For **Component 2** advisers will be embedded in the Moustufiat and the Line Directorates, to ensure day-to-day contact and on-the-job support, as well as to build trust in the competence of the adviser and usefulness of his assistance. Working through the PBU, Kandahar regional office, as a regional office of the MoF, will ensure capacity building efforts are designed around policies and procedures prescribed by the GIRoA and will create credibility for the TA provided.

Component 3 supports a World Bank program, which has been developed through an ongoing dialogue with the MoF. As an on-budget mechanism linked to MoF's own PFM roadmap it is following the best practice for making TA sustainable. However, the AusAID task manager for the program will need to focus on making sure that the MoF uses the funds in the PFM II Project to build, rather than substitute, capacity.

4.5.3 Approach to capacity building

All three components of the PFM program focus on strengthening existing institutions and working with existing capacities in Line Ministries and the MoF. The formulation of the program and its focus areas has also been largely demand driven – resulting from 3 separate missions, comprehensive consultation with over 40 GIRoA counterparts and ongoing engagement with other donors and GIRoA. Given weak ownership and duplication of existing systems are two of the most significant risks to achieving capacity building outcomes the design process itself provides a strong foundation to ensure interventions through the program will be sustainable.

However, this approach needs to be continually refined and methods and tools for capacity building will still need to be designed to match the level of capacity of the counterpart's staff and expected result of their work. This will be informed by existing capacity assessments and further analytical work and consultations during the inception phase. To make sure the methods and tools are effectively absorbed by the staff, the capacity building approach will change over the three years from an initial focus on formal training to on-the-job support and mentoring.

The approach expected for the first year is to focus on developing the right frameworks and tools while capacity is largely substituted; for the second year to focus on capacity building efforts with extensive on-the-job support; and for the third year to provide refresher courses to counterparts with less on-the-job support and more responsibility for day-to-day operations transferred to civil servants. A 'strategy for sustainable capacity building' will also be developed by the Managing Contractor during the inception phase of the program, which should incorporate specific measures to avoid capacity substitution in the long-run. This may involve measurable development plans and actions for specific skills transfer, or short term incentives to ensure staff participate in required training and/or are rewarded for high performance.

Like any other capacity building program in Afghanistan, there is also a high risk of building capacity of staff who then leave GIRoA for safer and more lucrative jobs elsewhere. The high staff turnover is particularly a threat in the case of the young professional staff recruited in the ministries on a contractual basis, rather than in the case of civil servants. Although contract staff are currently carrying out most of the core functions in the ministries – and

hence need to be targeted initially – long-term sustainability of any capacity building efforts can only be achieved if the capacity building efforts encompass primarily the civil servants. It is anticipated that embedding national experts in the relevant departments and units who will be able to provide training and on-the-job support to civil servants in their local language, taking into account absorptive capacity, and using a tailor-made approach are appropriate measures to manage this risk and facilitate greater ownership of the program. Retainment of civil servants and contracted staff will be included as a separate aspect of the ‘strategy for sustainable capacity building’ to be developed during the Inception Phase.

AusAID Kabul will also play an important role in linking the program into broader capacity building and public sector reform initiatives to mitigate the effects of failing to retain civil servants trained under the program. As there is a high number of donor supported national staff in the civil service, it is important that de-confliction with other donor programs is addressed. This may include, but is not limited to, working with the managing contractor to develop ‘staffing maps’ to identify GIRoA officials with key roles in program implementation and any links to other donor funded activities. Data from this can then be used to engage donor sponsors and ensure shared objectives with all stakeholders.

Given the importance of sustainable capacity building to the success of this program, the managing contractor may elect to include a capacity development adviser to facilitate the implementation of this program.

4.6 Overarching Policy Issues

4.6.1 Gender

The program is focused on developing capacity of the civil servants in the GIRoA. Unfortunately, in Afghanistan there is a huge disproportion in the numbers of women and men working in the government. This is especially aggravated in the provinces, where gender is a highly socially charged issue.

Given this challenging environment, it is expected that the managing contractor will incorporate a Gender Action Plan (GAP) into the PFM program. This systematic framework will translate gender mainstreaming into concrete actions to guide the implementation of the gender design features of the program, ensuring that women and men participate in, and benefit from, each component to the greatest extent possible. For example, in designing and implementing Component 1 capacity building activities, specific focus should be put on devising the activities in a way that will help overcome gender discrimination. Component 1 will aim at recruiting at least one female adviser in each Line Ministries to enable involvement of female employees in the capacity building and on-the-job support activities.

The GAP will be based on social and gender analysis that identifies key gender inequalities and constraints which will affect the implementation and results of the program, and should include strategies for gender capacity building with key stakeholders. The GAP should not be a stand-alone document, but fully integrated into the MEF at the inception stage, and include gender equality indicators for reporting purposes. Further points for consideration in developing a GAP include:

- Quality social and gender analysis needs to be undertaken in order to determine constraints to women and men participating and benefiting.
- Relevant activities, targets, resourcing and responsibilities for implement need to be identified early in the inception phase.

- A clear rationale for targeting and working with women needs to be directly linked to overall program objectives.
- Gender capacity building is a key component that must be addressed to develop the relevant skills, ownership and commitment of line ministries.
- Systematic monitoring and evaluation is required to ensure results are achieved. Gender-sensitive indicators and gender related-risks must be included in the MEF.

4.6.2 Anti-corruption

The country environment carries a high risk of corruption. Strengthening of financial management, internal controls (addressed in the Component 1 and 2) and procurement (addressed through the Component 3) will help constrain corruption by reducing the opportunities for financial leakages and procurement corruption. These are the two forms of corruption that most threaten donor funds.

4.6.3 Environment and child protection

These issues are not addressed directly by the program. However, GIRA spending policies that relate to the environment and improved welfare for children can be supported by better budget execution and by better budget execution processes. Not only will programs dealing with these two issues have a better chance of being executed but also the planning and tracking processes developed through the drive to better budget execution will also improve.

4.7 Critical Risks and Risk Management Strategies

The risk of falling into the trap of unsustainable capacity building efforts – or even capacity substitution that cannot ever be wound back – is the major threat to the effectiveness of this program. Section 4.5 above addresses this issue in considerable detail, but it should be noted that this issue is not unique to this program, or PFM capacity building in general, but rather is a challenge facing the entire public sector in Afghanistan. Addressing the ‘second civil service’ (donor funded contractors who are essentially performing civil servant functions) is fundamental to the international community’s long-term goals in Afghanistan and several major programs are well placed to begin to respond²⁸. While there is limited influence a targeted PFM intervention such as this can have on these broader institutional factors, the design of this program has been developed to mitigate these risks to the greatest extent possible.

Other risks associated with the implementation of this program include:

- **Cooperation and support of the Line Ministries and their buy-in for the implementation of reforms.** The program has been designed to support implementation of the reforms developed by the GIRA. However, there is a risk that counterpart ministries and provincial directorates will not be willing or able to take up this increased responsibility. The ownership of the reforms implemented will be further strengthened by building strong relationship with the MoF and strong rapport between teams embedded in the MoF and in the Line Ministries. Crucial for this link will be role of a Team Leader embedded firmly in the Budget Department of the MoF.
- **Commitment of Government counterparts may diminish over time.** This risk will be addressed by ensuring that the program activities present genuine value for the counterparts, supporting them in implementing steps of the budget process, prescribed

²⁸ The World Bank-supported ‘Capacity Building for Results Facility’, for example.

by the MoF, strengthening budget planning and execution and through this ensuring greater budget allocation in the future.

- **Involvement and support of the senior management in the Line Ministries for the implementation of necessary improvements in the way ministries manage their budgets.** Support of the senior management will be gained by using internal Budget Committees as a vehicle for implementation of the reforms. The Committees are to be established in the ministries based on the instructions of the MoF and a Cabinet decree. Involvement and oversight by Cabinet and MoF will create strong incentive for the Line Ministries' senior management to improve efficiency and effectiveness of the ministry's operations.
- **Lack of integration of budget functions in the Line Ministries.** Some Ministries are further advanced in the restructuring required for integration of budgeting and financial management functions within their Finance Directorates. The TA terms of reference may need to be revised to reflect the different organisational mandates within the ministries and to reflect what is possible within each ministry
- **Coordination with the efforts of other TA in the PFM area, currently supporting MoF (DFID- and UNDP-funded projects).** Establishment of the TA Coordination Cell within the Office of the Deputy Minister Finance is expected to contribute significantly toward this goal. AusAID will ensure its representative (i.e. the Program Manager) participates regularly in the meetings organized by the Office of Deputy Minister Finance in the future to ensure full integration and coordination of its assistance with the efforts of GIRoA and other donors.
- **Coordination with UNDP- and USAID-funded TA in the Line Ministries.** If mobilized, TA provided through the UNDP-funded project will be embedded in the office of the Minister/Deputy Minister, ensuring smooth communication with MoF and internal reporting to the senior management. However, TA will not be in a position to provide capacity building or on-the-job support required in the technical departments. Hence, there will be no overlap between the role of UNDP, USAID and AusAID provided advisers, but strong coordination of activities will be required.
- **Availability of counterparts (civil servants) in the supported Line Ministries and provincial directorates willing and able to absorb knowledge transfer.** This issue will be addressed by providing national experts embedded in the relevant entities who will be able to provide training and on-the-job support to civil servants in local language and taking into account their absorptive capacity, using tailor made approaches and methodologies. However, the expectation regarding the capacity building program in Uruzgan should be very conservative, taking into account low capacity base currently existing among civil servants in this province.
- **Role of the procurement controllers, supplied under World Bank, PFMR II Project.** Procurement controllers have been seen in the past as an obstacle to the procurement process, adding to delays. In the next phase of the project, although "procurement controllers" would continue to ensure that due process is followed, additional staff, "procurement officers" would also be deployed to Line Ministries to build capacity and facilitate procurement process.
- **Ability to credibly engage with the World Bank to influence the project's focus,** particularly to monitor and analyze the impact of procurement facilitators. To attempt to decrease this risk, close monitoring mechanism will need to be implemented, allowing active involvement in the PSC and close collaboration and support of the project activities by AusAID staff in Kabul.

- **Responsiveness of the provincial directorates to PFM on-the-job support provided through Component 2.** TA provided through this program risks lacking required credibility and oversight to facilitate budget processes in the Line Directorates. However, this risk will be mitigated by official endorsement of the TA by the MoF, Provincial Budgeting Unit. Providing additional staff in Provincial Budgeting Unit, Kandahar regional office will ensure this endorsement. PBU regional provincial budgeting officer will provide official Government's training on PFM rules and procedures, delivered directly in Uruzgan.
- **Effectiveness of formal capacity building program.** Formal classroom type training has proven so far inefficient solution for sustainable capacity building. To ensure its effectiveness formal training will be underpinned by on-the-job support provided by a national adviser rotating among key service delivery Line Directorates. The national adviser will undertake 2-month training in the MoF prior to his/her deployment in Uruzgan. In addition, capacity building program will be discussed and agreed with the Line Directors during the Inception phase.
- **Availability of pool of skilled national TA** that would carry implementation of the program, especially availability of qualified TA willing to work in Kandahar and Uruzgan. This risk can only be addressed through offering competitive salary range to the national advisers., as well as proper logistical and security arrangements.
- **Ability of AusAID to maintain continuous dialogue** with the beneficiaries and regularly monitor and support implementation of the program will be addressed by providing additional resources in the AusAID office in Kabul to engage and closely monitor Project's implementation.

For further information on program risks and mitigation approaches, see Annex 3 - Risk Matrix. This risk matrix will be reviewed and updated by the Managing Contractor during the inception phase (including by aligning it with AusAID's risk calculator approach).