

AFGHANISTAN RECONSTRUCTION TRUST FUND SY1388 INCENTIVE PROGRAM

ADMINISTRATOR'S TECHNICAL REVIEW: STRUCTURAL BENCHMARKS

Introduction:

On December 17th, 2008, ARTF Donors agreed with the Government of Afghanistan to establish the ARTF Incentive Program within the Recurrent Cost Window. The Incentive Program seeks to support the Ministry of Finance's leadership of cross-government reforms, focusing on three thematic areas: A: Sustaining Domestic Revenue Collection; B: Improving Public Sector Governance and C: Enabling Private Sector Development.

Following a series of Working Group discussions with donors, the Ministry of Finance and the World Bank, as Administrator, signed the Memorandum of Understanding on 16 March 2009. The MoU included the SY1388 benchmarks and the review protocol.

All verification materials are now submitted by the government, as per the schedule, and this Technical Review has been undertaken by the Administrator, with collaboration of key sector experts from other donors.

Summary of Performance against SY1388 Benchmarks:

The SY1388 structural benchmarks reflected the accelerated schedule for the first year of the Program's implementation. Benchmarks tracked existing government commitments, and, in addition, three of the seven benchmarks reinforced prior actions for the completion of the IMF's 5th Review under the Poverty Reduction and Growth Facility (whose completion was approved by IMF Board April 22, 2009). The remaining four benchmarks were negotiated with close involvement of the relevant line ministries/agencies and the Working Group of donors. Line agencies involved included the Ministry of Finance, Ministry of Education, Ministry of Commerce and Industries and the High Office of Oversight and Anti-Corruption.

According to the Administrator's Technical Review, the Government of Afghanistan met all SY1388 ARTF structural benchmarks within the timeline, as described in the matrix below.

This review therefore recommends to the ARTF Management Committee to increase the SY1388 ARTF recurrent cost window ceiling from the baseline of US\$250 million to US\$290 million, reflecting the US\$40 million additional incentive funds agreed in the Memorandum of Understanding.

Theme A: Sustaining Domestic Revenue Generation		
Benchmarks and Indicators	Met / Not met	Notes
<p>Enactment of the amendment to tax legislation to introduce business receipt tax on imports.</p> <p><u>Verification:</u> The IMF and World Bank will verify the law has been enacted.</p>	<p>Met. IMF 5th Review was concluded on April 22, 2009.</p>	<p>A business receipt tax (BRT) on imports was introduced. The BRT on imports aims to simplify the rate structure and broaden the tax base to include all businesses above a threshold.</p>
<p>Ensuring increased resourcing of the Revenue & Customs departments in the Ministry of Finance.</p> <p><u>Verification</u> World Bank/USAID against the following three indicators:</p> <p>(a) Increase in the approved SY1388 Tashkeel over SY1387 for Revenue and Customs departments in MoF. The schedule below sets out the proposed increases in Tashkeel in the SY1388 budget (see annex).</p> <p>(b) Approved (by DM Administration) Procurement Plans from Revenue and Customs Departments <u>including</u> the Original Procurement List communicated by respective Departments.</p> <p>(c) Guidelines for internal MoF Budgeting Process: A Report outlining the steps, tools, and documentation required for budget formulation and execution prepared and disseminated to Revenue and Customs Departments.</p>	<p>Met.</p>	<p>Agreement signed on 19 April, 2009 between Administration and ARD/ACD departments of the Ministry of Finance to an extra 200 customs officials and 423 revenue officials.</p> <p>Procurement plans signed on 19 April by DG Customs, DG Revenue and DG Administration.</p> <p>The budgeting protocol was approved by DM Administration and circulated to MoF departments on 14 April 2009. The circular allows for more flexible budgeting and purchasing procedures. The protocol is in line with the broader program budgeting initiative in MoF.</p>
<p>Verification that the memorandum of understanding between Ministry of Finance and Ministry of Commerce and Industry has been implemented, with regards the access of customs officials to the Fuel and Liquid Gas Enterprise (FLGE).</p> <p><u>Verification:</u> IMF/World Bank. The indicator is therefore confirmation by IMF that the first implementation status report has been submitted by MOF.</p>	<p>Met. IMF 5th Review was concluded on April 22, 2009.</p>	<p>MoF have submitted their implementation report to the IMF. Customs officials now have 24/7 access to FLGE facility in Hairatan, as per MoU. Discharge of fuel can only be undertaken in presence of customs officials and after duties paid. Ensuring a continued implementation will be critical.</p>

Theme B: Improving Public Sector Governance		
Benchmarks and Indicators	Met / Not met	Notes
<p>Documented policy established on teacher competencies and agreed to by Minister of Education</p> <p><u>Verification:</u> An approved policy is submitted by MoE to MoF & World Bank.</p>	Met	<p>Policy Statement on National Teacher Competency Assessment approved and endorsed by Minister of Education on 10 March, 2009.</p> <p>Policy states that the competency assessment of teaching staff is a prerequisite for pay & grading. The test will be undertaken in provincial capitals, with an awareness campaign in advance.</p> <p>Annex 1 to the Policy Statement, "Standards for Teaching Practice in Primary Schools" includes eight standards for teacher competencies which must guide the design and application of the teaching competency test (November 10 ARTF Incentive Program Milestone). In addition to the multiple choice competency test, which can provide evidence of the "knowledge" criteria of the standard competencies, the MOE would need to provide evidence of how the "skills" and "attitudinal" criteria will be measured.</p>
<p>Initiate the Asset Registration process.</p> <p><u>Verification:</u> World Bank will verify using documentation provided by the High Office.</p> <ul style="list-style-type: none"> a) Asset declaration form completed and sent out by the High Office of Oversight & Anti-Corruption. b) Guidelines developed by the High Office of Oversight & Anti-Corruption for filling in the asset declaration forms. c) Technical note setting out the future direction for a fully 'operationalized' asset registration system, i.e. what the Government commits to doing in the coming year. To be prepared by the High Office of Oversight & Anti-Corruption. d) Completion of asset registration by at least four ministers (target pilot group will include the HOO, MoF, MoI, and the Supreme Court). 	Met	<p>Verification materials submitted to MoF/WB on 19 April including: (a) the declaration form that has been sent out; (b) guidelines for completing the form (c) a technical note from the Asset Registration Department setting out a phased process for roll-out of the registration process, including a clarification of the utilization of registration forms for investigation purposes as well as the conditions under which forms would be published; (d) the first page of forms signed and submitted by the four target officials: Minister of Interior, Chief Justice, Minister of Finance and DG of the High Office of Oversight and Anti-Corruption.</p> <p>Going forward a concrete timeline for actions set out on the Technical Note should be developed by the High Office.</p>

Theme C: Enabling Private Sector Development		
Benchmarks and Indicators	Met / Not met	Notes
<p>Submit Memorandum of Trade Regime (MTR) in draft to World Trade Organization for official review.</p> <p><u>Verification:</u> World Bank: Documentation submitted to World Bank, demonstrating the draft MTR has been sent to WTO.</p>	Met	Cover letter & Memorandum sent by Adib Farhady, DM MoCI, to Pascal Lamy on 16 March 2008. Afghanistan has had WTO Observer Status since December 2004. In order for Afghanistan to accede formally to the WTO, the first stage is to present factual data on their trade regime. For this purpose, the Memorandum on the Foreign Trade Regime (MTR) was prepared and submitted. Further clarification of the trade regime will be required before accession.
<p>Submission of DABM/S audited financial statements for 2006/07–07/08</p> <p><u>Verification:</u> IMF</p>	Met. IMF 5 th Review was concluded on April 22, 2009.	The submission of the audited financial statements are a critical underpinning of the corporatization process of Afghanistan's power utility.