

AFGHANISTAN RECONSTRUCTION TRUST FUND

ARTF INCENTIVE PROGRAM FY1391-93 (2012-2014)**ADMINISTRATOR'S 3RD TECHNICAL REVIEW**

NOVEMBER 27, 2013

Preamble

1. In July 2012, ARTF donors agreed with the government of Afghanistan on a new ARTF Incentive Program within the Recurrent Cost (RC) window of the ARTF. The overall objective of the Incentive Program (IP) is to support the Islamic Republic of Afghanistan ("Afghanistan") with a reform program that aims at improving fiscal sustainability by increasing domestic revenue mobilization and strengthening expenditure management.
2. The IP funding will be allocated through three schemes: a revenue-matching grant scheme, a structural reform scheme, and an operations & maintenance (O&M) facility. Detailed information on each of the schemes, description of the structural benchmarks, and the timetables are contained in annexes 1- 5 of the Memorandum of Understanding (MoU), as amended December 9, 2012.
3. The timeline for the implementation of this incentive program is July 2012-2014 (i.e., FY1391-1393). Table 1 shows the indicative allocations for the IP.

Table 1: Indicative Allocations through the ARTF Incentive Program (US\$)

	2009/10	2010/11	2011/12	2012	2013	2014
	FY1388	FY1398	FY1390	FY1391	FY1392	FY1393
Baseline ARTF RC support	\$250	\$225	\$200	\$175	\$150	\$125
ARTF Incentive Program	\$40	\$60	\$70	\$50	\$182	\$275
<i>Structural Benchmarks</i>	\$40	\$45	\$53	\$37.50	\$112	\$130
<i>Revenue Matching Grant</i>		\$15	\$18	\$12.50	\$38	\$45
<i>O&M Facility</i>					\$32	\$100
Potential Ceiling for ARTF RC/IP support	\$290	\$285	\$270	\$225	\$332	\$400

4. The basis for this technical review is the MoU signed on July 12 2012 (amended on December 9) by the Ministry of Finance (MoF) and the World Bank (as Administrator). The MoU and its annexes include all the benchmarks and the review protocol. It stipulates that technical reviews of the IP will be held every four months. Each review will report on progress and development of the program, and assess the achievement of actions under the structural reform scheme against the agreed deadlines. To this end, Afghanistan is required to submit all documents evidencing the completion, fulfillment, or achievement of any such actions, goals, or targets at least 10 days prior to the commencement of each scheduled review meeting.
5. This technical review has been undertaken by the World Bank as administrator, with collaboration of sector experts from ARTF donors. Part I of this review describes progress on revenue mobilization and collection. Part II includes an assessment of progress on FY1392 structural reform benchmarks based on the evidence provided and also reports on the two pending benchmarks from FY1391. Part III discusses the proposed changes to the subnational finance benchmark discussed by the government, donors, and administrator. Part IV assesses progress on the O&M Facility. Part IV assesses other disbursement conditions. Part VI concludes with the recommendation to the ARTF management committee with regard to the disbursement of the IP.

Part I: Progress on Revenue Mobilization and Collection

6. The Revenue Matching Grant Scheme under the IP rewards improved performance in revenue mobilization and collection. It is anchored in the annual revenue targets agreed between the Ministry of Finance and the IMF in the context of the ECF approved on November 2, 2011.
7. **Progress in meeting the FY1392 (2013) revenue targets:** The revised revenue target agreed for FY1392 between the MoF and the IMF is Afs 114 billion. After a decade of strong fiscal performance, revenue mobilization has weakened in 2012 and 2013. Revenues through end-September 2013 amounted to Afs 75.6 billion. The weakness in revenue collection in 2013 is due to the economic slowdown as well as weaknesses in administration. In agreement with the IMF, the MoF is pursuing a number of measures to stabilize revenues in 2013 and increase revenues going forward. Given current trends, meeting the revised revenue target for FY1392 will prove challenging.
8. **The revenue matching grant incentive payment is determined according to a calibrated scale.** The indicative allocation for 2013 is \$38 million. The full amount of this allocation would be paid only if 99 percent of the revenue target of Afs 114 billion is achieved. If actual revenues amount to only 91-94 percent of the target, the incentive paid would be only 25 percent of the indicative allocation or \$9.4 million. If 95 percent of the target is met, the incentive paid would be 50 percent of the indicative allocation or \$18.8 million. **A final determination on the revenue matching grant incentive payment can only be made after the end of the fiscal year.**

Part II: Performance Assessment of FY1391-1393 Benchmarks

9. This part provides the performance assessment for the FY1392 structural benchmarks of the ARTF IP, as well as for the two pending benchmarks for FY1391. The Second Technical Review was completed on June 2, 2013 and assessed that two benchmarks from 1391 had been achieved. It also assessed that none of the benchmarks for FY1392 had been achieved and that two benchmarks for FY1391 remained pending. Since then, the administrator has engaged on an ongoing basis to facilitate progress. MoF and other government counterparts have also furnished verification material to demonstrate the fulfillment of structural benchmarks for FY1392. This evidence has been reviewed and assessed by the administrator.
10. **Performance assessment of FY1392 benchmarks:** Based on the evidence received up to November 27, 2013, the administrator's Technical Review assesses that ***four structural benchmarks for FY1392 have been achieved***. These include the following:
- **Procurement Performance (#3):** An additional three Line Ministries implemented institutional arrangements and developed capacity sufficient to meet the stand alone procurement criteria set by PPU.
 - **Budget Transparency (#4):** MoF implemented at least 4 (four) recommendations from the 2011 Open Budget assessment for Afghanistan by the International Budget Partnership (IBP) initiative. This includes: (i) MoF has published the 1393 budget planner on its website; (ii) MoF has published the 1392 Citizen Budget on its website; (iii) MoF has published a pre-budget statement for the 1393 budget on its website; and (iv) MoF has held a consultation workshop with CSOs and media on the 1393 budget and published the proceedings on its website.
 - **Trading across borders (#8):** MoCI made verification of the commercial invoices and the certificate of origin voluntary for exporters and has started to enforce the elimination of mandatory export quality certificates.
 - **Norm-based budget allocation (#10):** As part of the 1392 benchmark, MoF rolled out the norm-based formula for the operating budget to two additional key ministries, beyond the one on Education required under the 1391 benchmark. MoF sent the Administrator (on November 19) the 1393 budget circulars on norm-based budgeting for four ministries (Education, Public Health, Public Works, and Civil Aviation Authority). While the norms for Education, Public Health, and Public Works are clearly defined, the Civil Aviation allocations are not based on clearly defined norms. However, the 1392 benchmark is achieved because it requires two additional key ministries, in addition to the one on Education required for the 1391 benchmark.
11. Furthermore, the Administrator's Technical Review reviewed the evidence on the External Audit benchmark and concluded that while good progress has been made, shortcomings in the working files will need to be resolved over the next 1-2 months. This benchmark will be assessed again as part of the next technical review:

- **External Audit Performance (#1):** SAO has undertaken the Compliance Audit of four line ministries, namely Min.of Public Health, Min.of Public Works, Min.of Education, and Min.of Labour, Social Affairs, Martyrs & Disabled (MoLSAMD), accounting for the audit of 27.5% of total expenditures for FY 1391. The Audit Reports of the four ministries have been signed by the Auditor General and the summary of the findings has been posted on the SAO web site www.sao.gov.af. The Administrator has reviewed planning memoranda, checklists and tool kits for these audits and found these of an acceptable standard. Audit sampling was robust and includes extensive analytical procedures; the planning process and the manner in which the field work was conducted for these audits are encouraging; and the reports are in line with the planning memo and fulfilled reporting standards for compliance audits. The review of the working files however indicated there are shortcomings with respect to full compliance of standards. The SAO is working on bringing the files up to full compliance and will resubmit for review. An expert will conduct a detailed review in January.
12. **The matrix in Table 1 below provides additional details regarding the performance assessment of the individual benchmarks**, including those that have not yet been fully achieved. The benchmarks on AML/CFT (#6) and Business Licensing (#7) are flagged as being on track to being achieved, but not within the time frame of this technical review. The benchmarks on Internal Audit (#2), Civil Service Reform (#5), and Customs (#8) are flagged as being associated with a risk of delay. This technical review notes that cabinet approval of the AML/CFT legislation is expected in early-December and encourages the authorities to make a concerted effort to follow through on this front.
13. **Progress on pending FY1391 benchmarks:** The matrix in Table 2 below details progress on the two pending benchmarks from FY1391. In sum:
- **External audit:** Pending, subject to satisfactory file reviews.
 - **Customs:** This benchmark for 1391 remains pending and is unlikely to be achieved. The sticking point is the objection of the Ministry of Interior to shifting enforcement to ACD.

Part III: Proposed Revision of the Subnational Finance Benchmark

14. The IP Working Group meetings in May and June 2013 discussed replacing the subnational finance benchmark on norm-based budget allocations with a benchmark on the provincial budget policy. The intent is to strengthen the linkages between the IP and the TMAF process. Discussions between the SNG (subnational governance) working group, the government, and the administrator resulted in the following proposed formulation of the revised benchmark: MoF issues a provincial budgeting policy for approval by Cabinet, based on broad-based consultation and in line with the legislative framework that a) allows for the recognition of provincial line departments over a set time period as subordinated budget units of their respective ministries after consultation with MoF, b) clarifies the roles of provincial Line Departments and Provincial Councils in the budget process, and c) delegates related budget execution responsibilities.

15. Considerable progress has taken place in preparing and discussing the provincial budget policy with a range of stakeholders. The next steps are to complete the consultation process and to issue the policy for approval by cabinet. During the IPWG meeting on November 19, 2013, MoF noted that it was too late in the year to adopt the revised formulation for 1392 and suggested adopting a revised formulation for 1393 instead. The meeting discussed that if a revised formulation for 1393 were adopted, the wording be refined so that achievement of the benchmark would lead to the incorporation of the provincial budget policy into the 1394 budget cycle. This technical review recommends that such a refined formulation of the 1393 benchmark be agreed by January 2014.

Part IV: Operations & Maintenance (O&M) Facility

16. The O&M facility is intended to incentivize civilian O&M spending. The facility is also intended to promote improved O&M systems in select line ministries. The indicative allocation for the O&M facility for 1392 is \$32 million. The way the facility works is as follows. A baseline is defined using the average of O&M spending (civilian operating budget code 22) for the last two years. For each dollar spent above the baseline, the facility is intended to match 1.5 dollars up to a maximum of \$32 million. The two target ministries in FY1392 are Ministry of Education (MoE) and Ministry of Public Health (MoPH).

Year (Months)	Initial Budget (Billion Afs)				Actual Spending (Billion Afs)			
	1390	1391 (9)	1391 (12)	1392	1390	1391 (9)	1391 (12)	1392 (8)
Civilian O&M	9.726	8.976	11.97	14.17	19.39	16.14	21.53	11.646
MoE	1.792	1.129	1.505	4.987	1.813	1.826	2.434	1.001
MoPH	0.070	0.919	1.225	0.079	2.087	0.893	1.191	0.913

17. The trends in O&M spending are presented in the table below. Overall budgeted civilian O&M has been increasing over time, from Afs 9.7 billion in 1390 to Afs 12 billion in 1391 (pro-rated to 12 months) to Afs 14.17 billion in 1392. However, actual O&M was much higher than budgeted in 1390 and 1391, but much lower than budgeted in 1392. As a result, actual O&M spending for 1392 has been running much lower than the average of the last two years (which is the baseline). Looking at the target line ministries, actual spending over the first eight months of FY1392 was Afs 1 billion in MoE (which is 47 percent of the average of the last two years) and Afs 0.913 billion in the MoPH (which is 56 percent of the average of the last two years).
18. The Ministry of Finance has noted a number of factors responsible for low O&M spending in FY1392. The first is overall resource constraints leading to lower spending on select O&M components. The second is that 1392 was a pilot year during which improved O&M systems are being built in the target line ministries, with some in MoF under the impression that the O&M facility was intended to simply reimburse actual spending in the target ministries, regardless of overall spending levels. The third reason is that the 12-month pro-rated spending in 1391 leads to an overestimate because the high spending in the last month. Finally, MoF notes that it is working with MoE and MoPH to increase O&M spending through the end of the year.

19. **A final determination on the O&M facility can only be made after the end of the fiscal year when final actual O&M spending figures are available.** Furthermore, since the process of improving O&M systems will continue and resource constraints could continue into next year, the language in the MoU for the O&M facility could be examined to see if the facility could be improved further.

Part V: Other Disbursement Conditions

20. The MoU of the IP program contains the following language on links to the IMF program:

“The ARTF Donors and Afghanistan have agreed that it is a precondition for the Incentive Program that on-going IMF supported program be in place (currently the Extended Credit Facility – ECF which represents an active engagement on managing the macroeconomic environment). The ARTF Recurrent Costs Window disbursements pursuant to the Incentive Program are intended to accompany the IMF disbursements under the ECF. Accordingly, the Incentive Program allocations to the Recurrent Cost Grant would be withheld by the Administrator if at any point in time a review of the IMF’s ECF program lapses.” (para 24)

“Afghanistan may continue to furnish evidence for completed actions to the Administrator during any such suspensions/withholdings, so that the allocation of funds and subsequent disbursements can be immediately resumed according to the provisions in section 5 as soon as the next ECF review is successfully completed. Interruptions in the ECF program that lead to the negotiation of a new program are also expected to lead to the negotiation of a new Incentive Program, as soon as an agreement on a new IMF program is reached.” (para 25)

In sum, the language suggests that IP disbursements would be withheld in the event of a “lapse” or “interruption” in the IMF ECF program review. However, the words “lapse” and “interruption” are not part of the formal IMF vocabulary, although the administrator notes that they are informally used to refer to an unacceptable macroeconomic framework where active engagement under an IMF program has ceased.

21. The IMF has provided the following guidance on the nature of its engagement under the program, indicating that active engagement under the IMF ECF is continuing, with the IMF working toward possibly concluding a program review in early 2014:

An IMF program for Afghanistan, representing an active engagement on managing the macroeconomic environment, remains in place. The three-year, US\$130 million Extended Credit Facility (ECF) arrangement was approved by the IMF Executive Board on November 14, 2011. On June 29, 2012, the first review of the IMF program was completed. The IMF has advised the Administrator of the following:

- After delays in late 2012, progress in the implementation of structural reform benchmarks has picked up in 2013.

- Uncertainty surrounding the 2014 political and security transitions and an insufficient policy response has affected economic performance.
- In May 2013, IMF staff and the authorities agreed on a set of quantitative targets and implementation of structural reforms to establish an informal track record for a possible program review.
- In September 2013, IMF staff reached agreement with the authorities on a policy framework, quantitative targets, and structural benchmarks for 2013 and 2014, including measures to improve revenue mobilization, strengthen the financial sector, and enhance economic governance.
- The IMF will assess performance on quantitative targets and structural benchmarks and targets through end-December with a view toward possibly concluding a program review in early 2014.
- The IMF team noted that the disbursement of ARTF incentive funds would support macroeconomic stability.

In sum, active engagement under the IMF ECF is continuing, with the IMF working toward possibly concluding a program review in early 2014.

Part VI: Recommendation on Incentive Fund Disbursement

22. The administrator's Third Technical Review recommends to the ARTF management committee to disburse the following amounts in incentive funds out of the ARTF Incentive Program allocations for 1391 and 1392:
 - **US\$ 44.8 million** for the four 1392 benchmarks assessed as achieved through November 27, 2013.
23. The administrator's Third Technical Review encourages the authorities to engage actively with the IMF, including meeting the relevant quantitative targets (particularly on domestic revenue) and structural reforms, in order to swiftly conclude the next ECF program review as planned in early-2014.

Table 1: Progress Report on FY1392 Benchmarks

A. Public Financial Management		
1392 Benchmarks	1392 Evidence (from MoU)	Progress
<p>(1) External Audit Performance: CAO carries out and publishes external audits done to acceptable standard of central government entities that represent at least 20% of total expenditures.</p>	<p>(1) Evidence of the coverage would be the semi-annual audit reports provided to Parliament which includes the specific reports. The audits must be comprehensive of the entities' operations and not limited to one or two processes or units within the entities. Acceptable standards are provided, both by the INTOSAI and ISSAI.</p>	<p> On track, subject to satisfactory file reviews. There has been good progress on external audits. According to information relayed by the SAO to the Administrator, the SAO has undertaken the Compliance Audit of four line ministries, namely Min.of Public Health, Min.of Public Works, Min.of Education, and Min.of Labour, Social Affairs, Martyrs & Disabled (MoLSAMD), accounting for the audit of 27.5% of total expenditures for FY 1391. The Audit Reports of the four ministries have been signed by the Auditor General and a summary of the findings of each of the four reports has been posted on the SAO web site www.sao.gov.af.</p> <p>As part of the PFMR II supervision mission, the Administrator reviewed planning memoranda, checklists and tool kits for these audits and found these of an acceptable standard. Audit sampling was robust and includes extensive analytical procedures. We are encouraged both by the planning process and the manner in which the field work was being conducted for these audits. Subsequently, the Bank received and read the reports and established that these were in line with the planning memo and fulfilled reporting standards for compliance audits.</p> <p>The review of the working files however indicated there are shortcomings with respect to full compliance of standards. The SAO is working on bringing the files up to full compliance and will resubmit for review. An expert will conduct a detailed review in January.</p>
<p>(2) Internal Audit: Five (5) ministries undertake internal audits which substantially meet professional standards set by the Internal Audit (IA) Dept. of the Ministry of Finance (MoF) based on IIA Standards.</p>	<p>(2) Report describing the work, attesting to compliance with standards and reporting the action taken by management to be prepared by the IA Dept of MoF and the audit reports themselves.</p>	<p> Risk of delay. Internal audits of miscellaneous revenue processes were carried out at the following ministries: Ministry of Women's Affairs; Ministry of Foreign Affairs; Ministry of Economy; Ministry of Haj and Endowment; and Ministry of Border and Tribal Affairs. The selection of miscellaneous revenue arose as a result of negotiation between IAD MoF and Ministry IADs. MOF IAD was precluded from selecting other areas which might have been more appropriate due to, for example, a higher level of risk.</p>

		<p>The US Treasury Technical Advisor to MoF IAD concluded that “...the completion of these five audits is in line with benchmarks requirements” and cites internal audit performance standards (including independence of the MoF IAD) in support of this opinion.</p> <p>It is true that the IAD is an independent entity in MoF and the audits of miscellaneous revenue were conducted in an objective manner. However, in this instance, the ability of IAD MoF to select areas for audit and indeed even the type of internal audit to be conducted was restricted by the line ministries. Therefore, the benchmark has not been met since the application of professional standards does not “substantially meet” IIA standards given the significant limitation of scope imposed by the line ministries in selecting both the type of internal audit and the areas to be audited.</p> <p>MoF has indicated that it will follow up with the line ministries so that the audits would be carried out by the IA Units of the line ministries. There is concern that without MOF IAU involvement the audits would not meet the requisite standards.</p> <p>The amendment to Article 61 of the audit law is a key stumbling block and needs to be reversed. Discussions between the SAO, WB, and MoF could also help provide a way forward.</p>
A. Public Financial Management		
1392	1392 Evidence (from MoU)	Progress
<p>(3) Procurement Performance: An additional three (3) Line Ministries will implement institutional arrangements and develop capacity sufficient to meet the stand alone procurement criteria set by PPU.</p>	<p>(3) Certification reports by the PPU</p>	<p> Achieved. Five additional Ministries have been assessed for independent procurement: Ministry of Defense; Ministry of Interior; Ministry of Communication and IT; Ministry of Women’s Affairs; and Ministry of Counternarcotics. However, MOD and MOI certificates are temporary and conditional, so the other 3 ministries are considered for the benchmark. The certificates and the related assessments were reviewed by the Administrator and found to be consistent and fulfill the benchmark.</p>

<p>(4.) Budget Transparency: MoF implements at least 4 (four) recommendations from the 2011 Open Budget assessment for Afghanistan by the International Budget Partnership (IBP) initiative. This could include:</p> <ul style="list-style-type: none"> - MoF publishes the 1393 budget planner on MoF website - MoF prepares and publishes a 1392 Citizen Budget on the MoF website - MoF publishes a pre-budget statement for the 1393 budget on the MoF website - MoF organizes consultation workshops with CSO's and media on 1393 budget and publishes proceedings on the MoF website 	<p>(4) Administrator verifies publications</p>	<p> Achieved. Afghanistan has made considerable progress in improving its Open Budget score from 8 in 2008 to 21 in 2010 and 59 in 2012. The focus for the 1392 fiscal year is to show further progress over the achievement of past years by updating and issuing relevant budget documents and increasing their quality:</p> <ul style="list-style-type: none"> - MoF has published the 1393 budget planner on MoF website - MoF has published the 1392 Citizen Budget on the MoF website - MoF has published a pre-budget statement for the 1393 budget in the MoF website. - MoF held a consultation workshop on Nov 18 with CSOs and media on the 1393 budget and the proceedings have been published on the MoF website.
<p>B. Governance</p>		
<p>1392</p>	<p>1392 Evidence (from MoU)</p>	<p>Progress</p>
<p>(5) Civil Service Reform: The Council of Ministers approves amendments to the civil servants law.</p>	<p>(5) The Authorities will provide the Administrator with the cabinet approved civil service law as well as the cabinet minutes, confirming the approval. The Administrator will review the law for compliance with minimum standards (see annex 3 of MoU).</p>	<p> Risk of delay. The Ministry of Justice and the Civil Service Commission have together prepared the final draft of the law. MOJ has submitted the draft law to the Legislative Review Committee at the Office of Administrative Affairs. Government expects that the law will be submitted to the Cabinet before mid-December 2013. The Administrator has seen previous drafts but has not received the final draft which has been submitted to the Office of Administrative Affairs for cabinet approval. The IARCSC has agreed to provide the Bank with the updated English version of the law within a week. The Administrator would need to review the Cabinet approved Civil Service law to ensure that it complies with minimum standards to determine if the benchmark has been met. Government has indicated that the previous issues which resulted in the law being recalled from Cabinet have been resolved, with MOJ now in agreement on the draft. However, delays are possible.</p>
<p>(6) AML/CFT: The Council of Ministers approve the amendment of the law No. 840 of October 2004 on "Anti-Money Laundering and Proceeds of Crime" and the law No. 830 of October 2004 on</p>	<p>(6) Administrator will review the law and verify the minutes of the cabinet meeting. At the minimum, the requirements on customer due diligence, record keeping, and suspicious</p>	<p> On track. The AML and CFT laws were approved in principle by the cabinet on July 1, 2013 and referred to a committee for amendment. The draft laws were shared with the IMF for comments and its compliance with FATF 40 recommendations. The IMF</p>

<p>“Combating the Financing of Terrorism” to align with international standards (FATF Recommendations on AML/CFT) and submit to parliament.</p>	<p>transaction reporting should meet the international standards.</p>	<p>expert team provided final comments in early October 2013. The revised draft AML/CFT laws were sent back to the MoJ for review. The laws will be shared with the Cabinet assigned committee members who will report to the President on the final draft. MoF is following up on this as a priority and has indicated that it is on the agenda of the Council of Ministers, with approval expected in early December.</p>
<p>C. Investment Climate and Trade Facilitation</p>		
<p>1392</p>	<p>1392 Evidence (from MoU)</p>	<p>Progress</p>
<p>(7) Business Licensing: MoF and MoCI take necessary action to streamline the renewal for trade and investment licenses (including tax clearance). Action will be further clarified prior to FY1392</p>	<p>(7) MoCI and MoF provide the Administrator with a copy of the relevant Ministerial decree or directive.</p>	<p> On track: Consultants have been mobilized to provide assistance with the streamlining process and explore different options for the unification of the business license and registration system. Meanwhile, MoCI extended the period for the renewal of trade licenses from one to three years. A similar solution is contemplated for investment licenses; MoCI is awaiting outcome of discussions with AISA and MoF on next steps. The draft report of the consultants, containing short and medium term recommendations has been shared with MoCI.</p>
<p>(8) Trading across borders: MoCI makes verification of the commercial invoices and the certificate of origin voluntary for exporters <u>and</u> enforce the elimination of mandatory export quality certificates.</p>	<p>(8) MoCI provides the Administrator with a copy of the relevant Ministerial decree or directive.</p>	<p> Achieved. MoCI issued a directive to MoF/ACD copying ACCI and EPAA that the Certificate of Origin be voluntary. The letter has been received and forwarded to regional customs points. A directive to make export quality certificates voluntary has also been issued by MoCI, although uniform implementation of this directive will need further attention going forward. With these steps, the benchmark is formally met.</p> <p>Implementation of this reform was challenged earlier by ACCI. In November 2013, ACCI issued a letter dropping its objection to this reform and indicating that certificates of origin are not mandatory and are issued at the request of traders. In a next step, the actions taken thus far should be supported by a broader information and awareness campaign. This could be done, as per recommendations by KfW, within the context of strengthening the one-stop-shop functions of the recently established Directorate of Export Promotion under MOCI. Active follow up will be needed to ensure uniform implementation.</p>

<p>(9) Customs: Government of Afghanistan makes satisfactory progress in the implementation of the customs action plan in 1392 (as agreed at first technical review in 1391)</p>	<p>(9) to be determined once action plan is received</p>	<p> Risk of delay: An agreement on the customs action plan as well as the schedule for 1392 and 1393 actions has not yet been achieved, with the main sticking point being MoI's objection to shifting customs enforcement to ACD. ACD has indicated that they will implement select reforms from the action plan as part of satisfying this benchmark. Discussions between MoF, ACD and the Administrator are continuing on the select reforms to be implemented during the Jan-March 2014 period.</p>
<p>D. Sub-national Finance</p>		
<p>1392</p>	<p>1392 Evidence (from MoU)</p>	
<p>(10) Norm-based budget allocation: MoF applies the norm-based formula for the operating budget to further 2 key ministries. Identity of the ministries to be announced by last quarter of 2012</p>	<p>(10) MoF submits a report to the Administrator with a summary of the provincial budget distribution and copies of the provincial transfer sheets. The Administrator will review the report for compliance with the benchmark.</p>	<p> Achieved. As part of the benchmark for 1391, norm-based allocations for O&M expenditures were piloted for two ministries (Education and Public Health) for the 1392 budget. As part of the benchmark for 1392, MoF sent the Administrator (on November 19) the 1393 budget circulars on norm-based budgeting for four ministries (Education, Public Health, Public Works, and Civil Aviation Authority). While the norms for Education, Public Health, and Public Works are clearly defined, the Civil Aviation allocations are not based on clearly defined norms. However, the 1392 benchmark requires two additional key ministries, in addition to the one on Education required for the 1391 benchmark. So, the benchmark can be considered achieved. It should be noted that the MoPW norms can benefit from further elaboration and detail down the road.</p> <p><u>Formulation of benchmark on provincial budget policy:</u> The following formulation of the benchmark on the provincial budget policy, resulting from discussions between MoF, the SNG Budget group, and the Administrator since May, was presented at the IPWG meeting on November 19, 2013:</p> <p>Provincial Budget Policy: MoF issues a provincial budgeting policy for approval by Cabinet, based on broad-based consultation and in line with the legislative framework that a) allows for the recognition of provincial line departments over a set time period as subordinated budget units of their respective ministries after consultation with MoF, b) clarifies the roles of provincial Line Departments and Provincial Councils in the</p>

		<p>budget process, and c) delegates related budget execution responsibilities.</p>
--	--	------------------------------------------------------------------------------------

It was decided that the norm-based budget allocation benchmark for 1393 would be replaced by a revised version of this formulation allowing for incorporation into the 1394 budget cycle.

Table 2: SY1391 Structural Reform Matrix with Evidence Assessment

	Benchmarks	Progress of Implementation	Status	Next Steps and Recommendations
A. Public Finance Management				
1.	<p>External Audit: The Control and Audit Office carries out and publishes at least one external audit done to acceptable standard of the central government entities that represent 5% of the total expenditures</p> <p>Evidence: Evidence of the coverage would be the semi-annual audit reports provided to Parliament which include the specific reports. The audits must be comprehensive of the entities' operations and not limited to one or two processes or units within the entities. Acceptable standards are provided both by the INTOSAI and ISSAI. Independent review of the audit work would establish compliance with the standards.</p>	<p>CAO has started to carry out compliance audits in line with requirements of the new audit law.</p> <p>The audit reports for FY 1391 were submitted to the WB in November 2013 and also published, covering 27.5% of total expenditures. The intent of this benchmark was to raise the share of total expenditures covered over the life of the IP. Hence, both the 1391 and 1392 benchmarks are on track to being achieved (pending satisfactory file reviews), although the 1391 benchmark would be achieved with an 11 month delay.</p> <p>The planning and reports were reviewed and found acceptable. However, the review of the working files indicated there are shortcomings with respect to full compliance of standards.</p>	Pending, subject to satisfactory file reviews.	The SAO is working on bringing the files up to full compliance and will resubmit for review. An expert will conduct a detailed review in January..
C. Investment Climate and Trade Facilitation				
9	<p>Customs: Customs Action Plan has been prepared and relevant parts have been agreed with MoF, MoCI and MoI</p> <p>Evidence: Administrator will review and verify the action plan as well relevant MoU's between Ministries which may be</p>	<p>A customs workshop was held in Dubai with high level representation from relevant Ministries in June 2012. Workshop participants agreed on the problem definition and challenges related to customs reforms and worked out different reform options.</p>	Pending	ACD, MoF and Administrator to continue discussions. The customs action plan needs to be discussed with different stakeholders, and agreement by cabinet or relevant members needs to be documented. While the approval of MoF was obtained, other Ministries have not yet agreed to this Action

	required for the future implementation.	<p>Based on these discussions a draft action plan was prepared. The MoI has objected to shifting enforcement to ACD.</p> <p>The administrator had several discussions with MoF and ACD on the action plan as well as on actions that could be implemented during this fiscal year. Discussions are still on-going.</p>		<p>Plan. Ministry of Interior in particular has reservations on transferring Customs Police or providing any enforcement powers to ACD. ACD has indicated that despite issues surrounding reaching agreement on the action plan, they will implement select reforms from the action plan in 1392 and 1393.</p>
--	-----------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------