Afghanistan Second Public Financial Management Reform Project (TF 10024)
Request to the ARTF Management Committee For Release of Balance of Funding US$ 13.0 Million

Introduction

The Second Public Financial Management Reform Project (PFMRII) is entirely financed by the ARTF. On June 14, 2011 the ARTF Management Committee (MC) approved a blanket proposal of US$ 73 million, of which to date a total of US$ 60 million has been released. This note presents the implementation status of the project, and requests the ARTF MC to release the balance of US$ 13 million.

Background

PFMRII is the largest on-budget technical assistance operation for Public Financial Management (PFM) in Afghanistan. The project components are implemented through the Ministry of Finance, the Control and Audit Office and the Ministry of Economy. The project development objective is to strengthen public financial management through effective procurement, treasury and audit structures and systems in line with sound financial management standards of monitoring, reporting and control.

The PFMRII carries on with the support to operations in PFM under the predecessor projects: the Public Administration Capacity Building Project (PACB) IDA-H1440 and the Public Financial Management Project (IDA – H 2980); and supports the reforms committed to in the Public Financial Management Reform Roadmap agreed at the Kabul Conference (July, 2010).

The Key outcomes expected to be achieved through the project include: (a) donors shift 20% of their off-budget official development assistance to Afghanistan to on-budget; (b) extension of internal audit coverage, done to professional standards, to 75% of the budget operations; (c) effecting external audit coverage of an acceptable standard to 75% of the budget operations; (d) at least 50% of procurement under the budget is done by line ministries without the assistance of ARDS; and (e) increased numbers of regular ministry staff performing functions previously carried out by contracted staff.

The project has four components.

Component 1: Procurement Reform (US$ 21.47 million):

1.1 Procurement Facilitation
1.2 Capacity Building in Line Ministries and Provinces
1.3 Institutional Development

Component 2: Financial Management Reform (US$ 23.88 million)

2.1 Treasury Operations and Systems Development
2.2 Human Resources Capacity Development
2.3 Professional Accountants Organization Development
2.4 Line Ministry Public Financial Management Assessments

Component 3: Audit Reform and Performance (US $ 24.70 million)

3.1 Internal Audit Capacity Development
3.2 Internal Audit Institutional Development
3.3 Internal Audit Information Technology Development
3.4 Direct Audit Support – Grant Audits
3.5 Direct Audit Support - Line Ministries
3.6 Policy Advice to the Auditor General and Coordination
3.7 Training Support
3.8 Infrastructure Support
3.9 Public Accounts Committee Strengthening

Component 4: Reform Management (US$ 2.95 million)

Project Implementation Status and Results

Reforms and performance in PFM have been significant at the center of Afghanistan’s agreements with donors for fiscal transparency and discipline. Progress under PFMRII of all the components which were financed has been satisfactory. Financing was not available to initiate subcomponents 2.3, 3.4 and 3.8.

Disbursements. While the operation was approved in August, 2011, expenditures under PFMRII only started in January, 2012 because the predecessor project (PFMR) financed the major on-going activities to December 31, 2012.

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<th>Project Data</th>
<th>Project Performance Ratings</th>
<th>ISR April 2012</th>
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<tr>
<td>Board Approval</td>
<td>Achievement of Development Project</td>
<td>Satisfactory</td>
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<td>Effectiveness Date</td>
<td>Overall Implementation Progress</td>
<td>Satisfactory</td>
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<td>Closing Date</td>
<td>Financial Management</td>
<td>Satisfactory</td>
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<td>Amount</td>
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<td>Amount Disbursed</td>
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<td>Life of Project</td>
<td>M&amp;E</td>
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Taking into account that the project implementation status and results achieved to date, as well as the significant need to proceed with the remaining components (assistance for the establishment of the regulation of a private sector accounting profession, line ministry audits by the CAO and infrastructure
for the CAO) it is imperative, if the project is to move forward on all its commitments, to release the balance of the ARTF support (US$ 13 million).

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<thead>
<tr>
<th>PFMRII Components</th>
<th>US $</th>
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<tr>
<td>Profession Accountants Organization</td>
<td>5.0 million</td>
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<tr>
<td>Direct Audit Support for CAO Line Ministry Audits</td>
<td>4.0 million</td>
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<tr>
<td>Infrastructure Support for the CAO</td>
<td>2.5 million</td>
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<tr>
<td>Other Institutional Strengthening and Capacity Building</td>
<td>1.5 million</td>
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