AFGHANISTAN PUBLIC FINANCIAL MANAGEMENT

FINAL REPORT

Contract No. AID-OOA-1-12-00035, Task Order No. AID-306-TO-15-00065

Cover photo: An APFM advisor explains tax law requirements to business representatives at a tax public awareness event in Kandahar on January 14, 2017. Photo: USAID/APFM

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# ACRONYMS

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<th>Description</th>
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<tbody>
<tr>
<td>ACCI</td>
<td>Afghanistan Chamber of Commerce and Industry</td>
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<td>AFN</td>
<td>Afghani (Afghanistan currency)</td>
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<td>APFM</td>
<td>Afghanistan Public Financial Management</td>
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<td>ARD</td>
<td>Afghanistan Revenue Department</td>
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<td>ARTF</td>
<td>Afghanistan Reconstruction Trust Fund</td>
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<td>BC</td>
<td>Budget Circular</td>
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<tr>
<td>COFOG</td>
<td>Classification of Functions of Government</td>
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<td>CPPPA</td>
<td>Central Public Private Partnership Authority</td>
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<td>DFID</td>
<td>Department for International Development (United Kingdom)</td>
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<tr>
<td>FPIP</td>
<td>Fiscal Performance Improvement Plan (previously referred to as the Five-Year Plan)</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<td>GFS</td>
<td>Government Finance Statistics</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ISLA</td>
<td>Initiative to Strengthen Local Administrations</td>
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<td>LOP</td>
<td>Life of project</td>
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<tr>
<td>LTO</td>
<td>Large Taxpayer Office</td>
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<td>MAIL</td>
<td>Ministry of Agriculture, Irrigation, and Livestock</td>
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<td>MDAs</td>
<td>Ministries, Departments, and Agencies</td>
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<td>MoEd</td>
<td>Ministry of Education</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MoPH</td>
<td>Ministry of Public Health</td>
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<td>MRRD</td>
<td>Ministry of Rural Rehabilitation and Development</td>
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<td>MTO</td>
<td>Medium Taxpayer Office</td>
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<td>NTA</td>
<td>National technical assistance</td>
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<td>O&amp;M</td>
<td>Operations and Maintenance</td>
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<td>ORD</td>
<td>Objections Review Directorate</td>
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<td>PBU</td>
<td>Provincial Budgeting Unit</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>PIMA</td>
<td>Public Investment Management Assessment</td>
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<td>PPP</td>
<td>Public private partnerships</td>
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<td>SIGTAS</td>
<td>Standard Integrated Government Tax Administration System</td>
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<td>STO</td>
<td>Small Taxpayer Office</td>
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<td>TADAT</td>
<td>Tax Administration Diagnostic Assessment Tool</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>USG</td>
<td>United States Government</td>
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EXECUTIVE SUMMARY

Afghanistan’s public finances are characterized by a heavy dependence on donor financing. In recent years, Afghanistan has made considerable progress in raising public revenue and managing its spending, but service delivery and fiscal sustainability have been hampered by relatively low revenue collections and low budget execution rates, particularly of its Development Budget.

Afghanistan must improve its domestic revenue mobilization and budget management to provide sustainable services to its citizens. Fiscal sustainability requires Afghanistan to generate sufficient domestic revenues to cover operating expenditures, and to manage those expenditures more effectively to deliver the services its citizens require.

The United States Agency for International Development's (USAID’s) Afghanistan Public Financial Management (APFM) Project supported Afghanistan’s Ministry of Finance (MoF) and numerous other revenue-raising and spending ministries in their efforts to improve fiscal sustainability. The two main project components focused on increasing Afghanistan’s domestic revenue and improving budget processes. A third project component focused on cross-cutting activities (including public outreach) and demand-driven activities (such as Open Access Policy and collection of transport revenues) raised by USAID in support of Government of Islamic Republic of Afghanistan (Government) PFM priorities or demanded by the Government.

The APFM project was implemented by Chemonics International, Inc., which utilized a limited number of subcontractors, including Adam Smith International. The project commenced on July 27, 2015, and was scheduled to end on July 26, 2018. However, due to budget constraints at USAID, in May 2017 USAID officially descoped the project and established a new project end date of December 26, 2017.

REVENUE MOBILIZATION

The first of APFM’s primary objectives was to strengthen the Government’s capacity to forecast, increase, and manage domestic revenue to enable Afghanistan to move toward fiscal sustainability.

Revenue policy was a prime focus of APFM’s revenue component activities, as the Government needed to revise the Income Tax Law under which tax revenue is collected, increase its revenue from non-tax revenue sources, and implement major changes
promulgated in the Tax Administration Law (2015). APFM provided the Afghanistan Revenue Department (ARD) with several technical reports on the proposed income tax changes, which informed the Government of the implications of the proposed changes and helped the Government obtain support for these changes through the political process. Through numerous training activities, APFM built capacity in revenue policy analysis to enable the ARD to assess the revenue impact of proposed changes in tax policy.

Non-tax revenue was a second critical area of APFM support, as the Government is seeking to significantly increase revenues from existing non-tax revenue streams and to identify new non-tax revenue streams. APFM worked with the 15 ministries, departments, and agencies (MDAs) that collect the bulk of non-tax revenue to identify and provide support required to obtain approvals for a number of fee increases that have the potential to significantly increase non-tax revenue. APFM also sought strategic improvements in non-tax revenue generation capacity, which included recommendations for a non-tax revenue law, a strengthened mandate for the ARD’s Non-Tax Revenue Directorate, and capacity building in concepts and best practice in setting fees and charges.

APFM supported the ARD in several key areas of tax administration, including tax dispute resolution and the regulation of tax advisory services, both of which must be implemented under the Tax Administration Law. Improving the tax dispute resolution mechanism provides taxpayers with an opportunity to appeal decisions issued by the ARD to a newly-created Tax Dispute Resolution Board, which is within the MoF but independent of the ARD. In addition to benefiting taxpayers, this is also of strategic value to the ARD’s Large and Medium Taxpayer Offices (LTO and MTO, respectively), as information from appealed cases enables the ARD to identify areas of tax legislation and administration that require improvement. APFM provided technical assistance to the ARD aimed at improving the existing administrative appeals mechanism, and also provided assistance required to establish the Tax Dispute Resolution Board.

The Tax Administration Law also recognizes the value of establishing a cadre of professional tax accountants to provide independent advice to businesses that will improve compliance with tax legislation and assist businesses with investment decisions. APFM supported the ARD in drafting policies, procedures, and reference materials to establish a system for the examination and registration of tax accountants.

APFM provided technical assistance on other key tax administration areas including, but not limited to tax arrears management, tax penalties, and dormant taxpayers.

Over the abbreviated life of the project, domestic revenue as a percentage of gross domestic product (GDP) increased by 3 percent from the established baseline to 11.3 percent in APFM’s Year 2. The tax compliance rate as a percentage of GDP increased to 5.10 percent during the one year it was measured by the project. In absolute terms, both tax and non-tax revenue increased during each year of the project. These results support the conclusion that, despite a slowdown in economic activity, reform measures have been effective in collecting increased revenue.
The Government exceeded its revenue targets in 2015 and 2016, with revenues increasing more than 50 percent in the two years from 2014, despite weak growth in the economy. This recovery and performance is remarkable and continues into 2017, where revenue of AFN 126 billion through October 2017 is in line with the target figure and is forecast to surpass the target by year-end. In 2016, non-tax revenue drove overall revenues, with the new mobile excise (10 percent telecommunication service charge on phone service), a recovery of 10 years of passport fees from Iran, and one-off collections from Da Afghanistan Bank (Afghanistan’s Central Bank) contributing to revenue. In 2017, taxes from large taxpayers are exceeding targets, while all other sources of revenue are below targets. Domestic revenues from 2012 to 2017 are shown in the following table.

### TABLE 1: DOMESTIC REVENUE (2012-2017) (in millions of AFN)

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<tr>
<td>Revenue</td>
<td>81,705</td>
<td>109,333</td>
<td>100,050</td>
<td>122,350</td>
<td>153,496</td>
<td>126,540</td>
<td>152,500</td>
</tr>
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**IMPROVED BUDGET PROCESSES**

A second primary APFM objective is to strengthen budget planning, execution, monitoring and evaluation, improve reporting capacities of national and sub-national Government entities, and improve budget communication and coordination between national and sub-national levels. APFM supported the MoF in implementing and developing capacity to support three major policy reforms: to devolve budget authority to provinces; to improve funding for the operation and maintenance of public assets; and to generate additional private sector financing.

The first initiative supported by APFM was the MoF’s implementation of the new Provincial Budgeting Policy, which shifts budget decision-making power to the provinces where services are delivered. Given the impact of this initiative across Government, APFM provided support at three levels: to the MoF, to four line ministries selected to pilot the new policy (the pilot ministries), and to provincial directorates of each pilot ministry in conjunction with USAID’s Initiative to Strengthen Local Administrations (ISLA) Project.

In an accompanying activity, APFM supported the MoF’s Provincial Budgeting Unit (PBU) in developing budgeting norms, funding formulas, distribution mechanisms, guidelines, and forms to support allocation of provincial unconditional funds. APFM complemented these activities by organizing a study visit, in cooperation with the German Society for International Cooperation in late November-early December 2016, for 16 Afghan MoF and line ministry officials to visit Cape Town, South Africa, to examine legal, institutional, and decentralization architectures, as well as socio-economic and political issues.

The second reform to be implemented was the new Operations and Maintenance Policy in the pilot ministries, which aims to provide funding to ensure adequate maintenance and replacement of public assets, such as roads and hospital equipment, and thereby improve service delivery to citizens. APFM supported line ministries in their implementation of the
Provincial Budgeting Policy and the O&M Policy, which included providing advice on the guidance documents developed by APFM and the PBU.

The third major policy initiative that APFM supported was the establishment of a new law and policy to provide a framework to attract private sector financing of public infrastructure and services through public private partnerships (PPPs). APFM supported the newly-established Central Public Private Partnership Authority in the MoF in implementing the PPP policy, including reviewing policy and regulations, providing training, raising business awareness, and helping assess PPP proposals.

APFM activities also helped improve the institutional framework and related capacity for formulating and managing execution of realistic budgets. APFM initiatives were undertaken to improve the timeliness and quality of communication and information sharing between units of Government, particularly between provinces and central line ministries, and between line ministries and the MoF. APFM delivered extensive training in budget classification systems and diagnostic tools, and provided practical recommendations on improving the budget classification system. Recommendations were provided to help ensure that the Government possesses a system that properly supports budget fiscal allocation, reporting, execution, analysis, and monitoring and is aligned with international standards.

APFM supported the MoF in improving revenue forecasts and funding envelope assessments, which will improve the reliability of the Medium-Term Fiscal Framework. APFM also provided training in managing budget ceilings in line with the Medium-Term Fiscal Framework. These activities were complemented by the APFM-supported study visit to Malaysia in August 2017 for seven officials from MoF’s Directorate of General Budget – who have key responsibilities for leading public financial management reform in Afghanistan – to examine modern international budget practices.

In previous years, technical capacity in the central budget departments in the MoF have been heavily dependent on donor support, while staff managing budget functions in line ministries have been neglected. APFM assessed training needs and designed a training strategy and modality that maximized knowledge transfer among the large and diverse groups of counterpart staff. While extensive formal training was undertaken, the most effective approach was found to be a learning approach using hands-on practical case work, with results of this work guiding support for the budget preparation cycle in the following year. This approach resulted in less advisor time allocated to formal training and more advisor time allocated to case-based practical assistance.

In Year 2 of the project, APFM developed an innovative approach to training in the provinces by replacing costly in-person training events with a training video that was made available to provincial officials on demand. This approach, which was adopted as a standard by the Directorate of General Budget, reduced the security risks associated with participant travel and increased sustainability while significantly reducing costs and resources associated with more formal training.
Using short-term international experts, APFM conducted an extensive formal training program in public financial management concepts and their application. This program included courses on standards for Government Financial Statistics (GFS) and the Classification of Functions of Government (COFOG), the revised Public Expenditure and Financial Accountability (PEFA) framework for assessing the quality of public finances, the Open Budget Index system for improving budget transparency and participation, and the Public Investment Management Assessment (PIMA) framework for determining the effectiveness of public investment. This training was aimed and timed to assist the Government in understanding further steps that need to be taken to ensure Afghanistan meets relevant international standards.

CROSS-CUTTING AND DEMAND-DRIVEN ACTIVITIES

APFM’s third component was designed to enable the project to address multiple public financial management areas and to respond to urgent requests for assistance from USAID and the Government.

APFM provided timely support for the following two demand-driven activities.

1. USAID requested APFM assistance to kick-start implementation of the Open Access Policy, addressing obstacles to its implementation and regulation, certification and licensing, revenue determination, quality control, and security aspects. Commencing in January 2017, an APFM open access advisor worked with a USAID representative to identify barriers and milestones to full implementation of the Open Access Policy, as well as solutions to these barriers. The consensus achieved evolved into decrees, decisions, and a draft infrastructure license. The activity culminated in the Minister for Communications and Information Technology issuing a decree on February 24, 2017, granting licensees the rights to install and operate fiber optic cable networks and deploy associated infrastructure, and announcing that mobile network operators have been authorized to deploy 4G services immediately. This clears the official obstacles to the deployment of fiber optic cable and 4G mobile internet services.

2. APFM also championed e-payment of non-tax revenue. At the Government’s request, APFM retained a short-term payment systems advisor who developed a design for a computerized system for invoicing and collecting transport revenue, together with a sequenced process for its implementation. When implemented, the system will streamline the payment system for transport operators while increasing transparency and Government revenues. Following APFM education on the benefits of e-payment to the ARD’s Non-Tax Revenue Directorate and to line ministries, that Directorate’s flagship measures in the 2017 Fiscal Performance Improvement Plan included e-payment of Government revenue.

In addition to demand-driven activities, APFM also conducted significant cross-cutting activities under this component. For example, APFM organized an internship program for recent university graduates who wished to pursue public financial management careers. By design, the project selected a limited number of highly-qualified candidates and
provided a broad exposure to public finance budget and revenue issues. At the conclusion of their internships, participants were successful in gaining entry to advanced degree programs or in securing employment in Afghanistan.

Another cross-cutting activity undertaken by APFM was the review of gender issues in revenue and budget laws and practices, which culminated in a conference held on this topic. The results of this review fed into other project activities, including the provision of tax information to women through channels that did not require travel to tax offices.

Public outreach was the most expansive activity conducted under this component. It comprised the following three key activities.

1. **Public outreach events.** APFM developed a communication strategy for the ARD in its first year, and supported that department in implementing the strategy in the project’s second year. Starting in December 2016, APFM financed and helped organize tax public outreach events in Kabul and selected provinces for taxpayers registered with the Medium and Small Taxpayer Offices. Most of these events, which covered practical matters such as how to complete a tax return, were held during the ARD’s annual “Tax Week” campaign, which marks the beginning of tax filing season. Two tax compliance roundtables organized by APFM provided a forum for representatives of large businesses to raise, discuss, and identify solutions to tax compliance burdens facing taxpayers.

2. **ARD website.** To improve ARD client services and provide more tax information to the public, APFM worked closely with ARD staff to design and deliver a new website that was more user-friendly, capable of providing expanded information, and was easier to use on smartphones.

3. **ARD Call Center.** The Government has established help centers at the ARD and Mustoufiat offices. However, these are inconveniently located for many taxpayers, and travel to Mustoufiat offices in provincial centers may pose considerable risk. APFM responded to a ministry request by establishing a telephone Call Center at the ARD that can be accessed by taxpayers throughout the country, together with developing processes and providing training to Call Center staff. This facility represents a new mode of communication for the ARD and significantly enhances its client services portfolio.

More detailed information on these and other APFM activities is provided in this report.
SNAPSHOT

Building capacity to enable Afghanistan to negotiate double taxation agreements

APFM built the ARD’s capacity to negotiate double taxation agreements with its trading partners

International taxation is a vital area in this era of international trade. Without international tax capacity, lawmakers and administrators may adopt international tax policies that harm revenue and business investment, and administrators may fail to police compliance by international firms. Expertise in this area is also needed so policymakers can effectively negotiate international agreements that avoid double taxation and encourage international investment, while ensuring that Afghanistan receives its appropriate share of revenue.

The ARD has very limited international tax expertise, and has relied on international advisors for operational and policy advice. Afghanistan has commenced negotiations for double tax agreements with a limited number of countries, but has not yet concluded any comprehensive agreements. Uncertainty about whether Afghanistan is charging the appropriate level of tax is one obstacle to concluding double taxation agreements.

To increase ARD capacity in this area, APFM retained international experts who provided training to ARD staff on international tax subjects. Basic international tax training was provided in July-August 2016 on double taxation and other international tax topics. The expert conducting the training also proposed changes to the ARD training program in this area to make it more robust. In September 2017, APFM provided more advanced training on international taxation, drafted training materials for future use, and developed a plan to address further capacity development needs.

Expertise in this complex area typically is built over many years. The ARD’s shift in emphasis to training and developing local capacity, with USAID assistance, puts Afghanistan on a sound path to increased self-reliance in this area.

It was one of the most helpful trainings I ever had. Hope to have such trainings again and again.

Participant in international taxation training, September 24, 2017
APFM’s revenue component addressed a fundamental challenge to Afghanistan’s fiscal sustainability — the national Government’s inability to generate sufficient revenue to pay for services its citizens need, finance development, and fund its substantial security costs. To meet these needs, the MoF has set ambitious targets for revenue growth. Those targets include large increases in tax and non-tax revenue. Legislative reforms were key to this initiative, with a new Tax Administration Law gazetted in November 2015, and major changes proposed to the Income Tax Law.

The Government faces the challenge of developing a tax system that raises sufficient revenue to meet Afghanistan’s spending needs and also promotes economic development. Building the capacity of the revenue administration to design appropriate changes to the tax and non-tax revenue mix was a key component in this effort.

APFM responded to these challenges by implementing a program of assistance and capacity building that supported tax policy reform, non-tax revenue generation, an improved tax dispute resolution mechanism, and the establishment of a certified tax accountant program. The project provided support to the revenue authorities by working with the office of the ARD Director General, key ARD directorates that manage non-tax revenue, legal policy, and tax objections, and 15 non-tax revenue-generating MDAs.

APFM also supported businesses to better manage their taxes through tax compliance roundtables and seminars. The project also supported ARD initiatives to improve client services by implementing a call center and a new, user-friendly website. These and other demand-driven activities are described in Section 3 of this report.

**DESIGNING TAX POLICY**

Designing and implementing changes to tax policy and legislation that increase Afghanistan's ability to generate sufficient revenue continues to be a major focus of the Government and donors. The reduction in donor-funded tax policy technical assistance in previous years creates more pressure on the ARD and line ministries to make sound policy decisions. The Government wishes to support business investment, but needs to balance that support against its ambitious revenue increase targets. A further factor affecting tax policy is the limited understanding of tax policy among officials and taxpayers. This is reflected in the decision to defer the Value-Added Tax, projected to be a substantial revenue raiser, for several years while capacity is built. This highlights the need to build tashkeel (Government staff) capacity and educate taxpayers.
Given these challenges and needs, refining tax policy was a major component of APFM’s activities. This included capacity building in policymaking and related aspects of tax administration. The project provided extensive analysis of critical income tax areas, and identified opportunities for excise taxation and improvements in property taxation. This will help the ARD optimize its fiscal policy to maximize revenue but limit adverse impacts on private sector investment and entrepreneurship.

INCOME TAX REFORM

The Government has committed to significant income tax changes as a precondition for funding under the Afghanistan Reconstruction Trust Fund (ARTF) Incentive Program. With prior donor support, an extensive package of changes had been developed that covered many aspects of income tax. However, these changes failed to obtain Cabinet approval in 2015 as required under the ARTF Incentive Program. Fundamental to this failure was the lack of material available to justify the changes, with the rationale for the changes unexplained and no formal assessments made of the potential impact the proposed changes would have on revenue and on taxpayers.

In every country, changes to taxes are politically sensitive, with changes in developing countries likely to attract competing criticisms from businesses and from external funding agencies. Consequently, unexplained changes or changes without sufficient justification are not likely to receive political support and, if they do succeed, they run the risk of imposing unintended burdens on businesses. It is normal practice for major tax policy shifts to include impact assessments before and after the changes, focusing on the impacts on revenue and on the private sector. These assessments help Government officials and elected representatives explain the rationale and benefits of the changes.

In 2016, APFM conducted an impact assessment of the proposed changes to the Income Tax Law. The assessment identified taxpayers impacted by each proposed change and projected the overall impact on taxpayers and revenue for each proposed change. This was followed up in 2017 by a quantitative socio-economic assessment focusing on the revenue impact of key changes to the Income Tax Law.

OTHER REVENUE-GENERATING PROPOSALS

The Government also sought APFM technical assistance on property taxation. A 2017 funding trigger in the ARTF Incentive Program required the Cabinet to approve legislation to improve the property taxation regime (which was expected to extend to consideration of rentals, sales, and property ownership). The legislation was to be based on a technical review, including a tax incidence analysis and recommendations. The ARD sought APFM technical assistance on this issue to respond to a technical review element in the MoF’s Fiscal Performance Improvement Plan (FPIP, previously referred to as the Five-Year Plan).

In 2017, APFM reviewed current property taxation legislation and developed proposed legislation for the property tax and property transfer tax. Property taxation is of key importance to municipal public financial management. Currently, Afghanistan’s
municipalities lack autonomy and, contrary to international practice, the right of municipalities to impose taxes is not explicitly recognized in the Constitution or in law.

Second, on several occasions the International Monetary Fund proposed that the Government consider excises as a source of revenue. Excise taxes are imposed in many countries, particularly to combat health and environmental harms such as smoking and pollution. At the ARD’s request, APFM conducted a review of excises that are imposed in other countries and recommended excises that could be imposed in Afghanistan. The report produced by APFM provides support for the introduction of a general Excise Law in Afghanistan, which would provide a flexible tool that would enable the Government to pursue objectives related to the advancement of public health, protection of the environment, and generation of revenue. The report also makes specific recommendations for excises to be raised on tobacco products, fuel, plastic bags, soft drinks, and second-hand tires.

**TAX ADMINISTRATION POLICIES AND PRACTICES**

In addition to the tax policies that are legislated and describe the incidence and impact of taxation on the community, there is a further area of administrative tax policy that is also fundamental to the tax system in operation. The administrative policies that a revenue administration establishes have a significant effect on businesses and on the efficiency of tax collection. Well-designed tax policy will optimize the use of the administration’s resources to maximize revenue collection, while ensuring good client service to the businesses that pay taxes.

APFM concentrated its efforts on providing support to the central administration, rather than the LTO, MTO, and Small Taxpayer Office (STO), which were supported by a separate on-budget project funded by the World Bank. At the ARD’s request, APFM provided support in relation to three problematic areas of Afghanistan’s tax administration: dormant taxpayers, tax arrears management, and tax penalties.

A large proportion of taxpayers registered on the ARD’s Standard Integrated Government Tax Administration System (SIGTAS) are no longer active. As a result, the database includes many inactive registrants. APFM issued a report that described international practice on the treatment of dormant taxpayers and included recommendations to address this issue, which include proposals to reduce the lengthy de-registration process.

Tax arrears management is synonymous with payment risk, and in Afghanistan it is complicated by several factors, such as hidden tax debts where assessments are not recorded on SIGTAS or returns have not been filed, claiming of incorrect exemptions, and aggressive collection of tax debts that pushes businesses into insolvency. APFM reviewed the legal framework for tax debt collection and practices regarding debt registration, write-off, and taxpayer communication, and compared these with international best practice. The 20 recommendations offered in the report will help the ARD better understand its tax arrears problems and possible solutions so that it can manage this area more effectively in the future.
The effective management of tax evasion and avoidance is a broad topic. To avoid duplicating work conducted by other donors, APFM sought a private sector perspective from the Afghanistan Chamber of Commerce and Industry (ACCI). The Chamber stated that some businesses are wound up because they are unable to pay accumulated tax penalties, and that public outreach in this area could be improved. APFM also reviewed best practice with regard to tax penalties and compared them to requirements included in the new Tax Administration Law and relevant manuals. APFM’s report includes recommendations for legislative reforms of tax penalties and for more effective tax administration, which will help the ARD manage existing penalties better. The report was timely, as tax penalties are currently a high-profile issue and have the attention of President Ghani.

**BUILDING CAPACITY IN TAX POLICY AND ADMINISTRATION**

Fundamental to APFM’s support for Afghanistan’s revenue system has been building Government capacity in concepts underlying good tax policy and tools used in its development. Previously, tax policy development has been heavily dependent on donor support. In the first year of the project, a new Revenue Policy Unit was established within the Legal Services Department in the ARD. The new Unit required intensive training and support, as developing tax policy is complex and politically sensitive.

Throughout 2016 and into 2017, APFM delivered tax policy training for ARD officials with responsibility for developing tax policy, which included macroeconomic fiscal policy concepts and their application; objectives and properties of good tax policy; tax administration policy; and specific aspects such as property taxation and excises. APFM also provided training in the methodology used to assess the projected impact of changes to tax policy or legislation.

APFM also provided training to tashkeel on international taxation, tax administration performance indicators, and changes resulting from recent amendments to the law. International taxation is an area requiring intense effort. There was limited capacity to redraft the relevant sections of domestic legislation (the Income Tax Law) and design and negotiate the bilateral double tax agreements that will help encourage international investment while ensuring Afghanistan an appropriate revenue share from international transactions.

As well as helping the Government better forecast the impact on budgeted revenues flowing from these changes, impact assessments developed by APFM also provide examples for officials that complement the training provided in tax policy development, including impact assessment of policy proposals. Assessments were conducted in cooperation with tashkeel counterparts to share knowledge and build capacity of ARD staff.

The Tax Administration Law, which was gazetted in November 2015, makes changes that impact most aspects of tax administration, and includes provisions such as a summary of taxpayer rights and obligations, which are designed to make the tax system fairer for
taxpayers. APFM provided training that will help staff apply the new law correctly and ensure taxpayers are informed of their rights and their obligations.

APFM also provided advice and training on key performance indicators flowing from the international benchmarks in the Tax Administration Diagnostic Assessment Tool (TADAT). This training will help the ARD monitor and improve its performance in key tax compliance areas. The training played an important role in enhancing revenue reporting capacity and systems and improving revenue reporting processes.

**GENERATING ADDITIONAL NON-TAX REVENUE**

Non-tax revenue is a major source of revenue for the Government, and one that has increased as a share of total revenue, as shown in Figure 1 below.

**FIGURE 1: Non-Tax Revenue as a Percentage of Total Domestic Revenue**

Prior to the commencement of the project, four Cabinet Resolutions (numbers 3, 4, 5, and 6) were issued that highlighted the importance the Government placed on increasing non-tax revenue. However, as with tax increases, there are ramifications to increasing fees and charges for non-tax revenue streams. When the fee charged significantly exceeds the cost of the service provided, and becomes a tax in disguise, this can distort business decision-making. On the other hand, when the fee is too low this provides a subsidy for the good or service that must be borne by those who do not use the good or service. In some cases, the cost of maintaining the collection mechanism may exceed the non-tax revenue raised.

Non-tax revenue was the second main area of APFM’s revenue component. APFM provided support to the ARD’s Non-Tax Revenue Directorate to enhance non-tax revenue capture, working alongside that Directorate with 15 MDAs to identify new non-tax revenue streams, increase revenue from existing streams, and reduce non-compliance in non-tax revenue collection.
APFM worked with the Non-Tax Revenue Directorate and key ministries at the strategic and tactical levels, providing support in four main areas. At the strategic level, APFM drafted non-tax revenue legal provisions, including changes to enforcement mechanisms, that can be used by ministries and agencies generally to more effectively collect revenue. The second strategic area encompassed training provided to Non-Tax Revenue Directorate staff on general principles of non-tax revenue policy. Third, APFM conducted assessments and reviews of aspects of non-tax revenue generation. These assessments, together with application of general principles of revenue generation, informed the fourth area of activity, which was operational support to the Directorate and all key revenue-collecting ministries and agencies. This last area of activity identified and obtained approvals for numerous changes to particular fees and charges to boost non-tax revenue overall while minimizing adverse impacts on business.

A MORE ROBUST FRAMEWORK FOR NON-TAX REVENUE COLLECTION

Prior efforts to increase non-tax revenue generation have employed an ad hoc approach to identifying and pursuing non-tax revenue gains from particular fees and charges, with limited consideration of the policy underpinnings of these changes or their impact on businesses.

In addition, the Non-Tax Revenue Directorate has no formal mandate or authority for collecting fees and charges. To address these issues, the MoF’s FPIP proposed developing a non-tax revenue law and clarifying and broadening the Non-Tax Revenue Directorate’s mandate.

APFM assisted the Non-Tax Revenue Directorate in identifying issues across ministries that generate delays in transfers of non-tax revenue from ministries and agencies to Treasury, and issues concerning compliance in paying the correct amounts of non-tax revenue, generally and in relation to key revenue streams. The resulting report prepared by APFM also considered and recommended general non-tax revenue legislation to address multiple issues including statutory interest on debts due to the Government, the status of private sector collectors of revenue under PPPs, and a monitoring and supporting role for the Non-Tax Revenue Directorate.

While the Non-Tax Revenue Directorate function is to support all Government MDAs to increase revenue and improve processes, its staff did not have an understanding of the principles behind sound non-tax revenue policy. This was addressed by the capacity development activity mentioned below.

HELPING THE NON-TAX REVENUE DIRECTORATE ASSESS TRENDS AND PLAN ACTIVITIES

While there are more than 500 line items of non-tax revenue when divided by collecting agency and revenue type, most non-tax revenue is concentrated in a few key sources. Given the range of potential targets and limited APFM resources, the project’s non-tax revenue work commenced with an assessment of shifts in non-tax revenue collections
compared to prior years, followed by a more intensive review of non-tax revenue collection in selected ministries, which complemented reviews of other key ministries performed by other donors. Collectively, this work provided a risk assessment necessary for targeting APFM activities at the specified ministries and charges to maximize outcomes.

When necessary, and on request from the ARD, further assessments were undertaken in specific areas. APFM further reviewed trends in non-tax revenue and drivers of year-on-year variances, isolating the revenue operations that contributed to the significant growth in non-tax revenue year-to-year from 2013 to 2016. APFM also identified impacts of some increases in fee rates and recommended a review of revenue coding that will improve the recording and monitoring of non-tax revenue in the future.

At the ARD’s request, APFM also reviewed two groups of proposals. The first included a large number of possible revenue enhancement proposals, developed by the MoF’s Revenue Planning Directorate, which concerned both tax and non-tax revenue. Based on its review, APFM prioritized options for follow-up. This report helped the ARD focus its efforts on the most promising future activities to increase collection of tax and non-tax revenue.

APFM also reported on proposals of possible incentives to be provided to revenue-collecting Government entities as well as staff of those entities. APFM explained that incentives such as bonus schemes face inherent problems with respect to the measurement of performance, effectiveness and equity, and outlined the features of successful arrangements.

**Generating Additional Revenue in 15 MDAs**

Operational support for line ministries in designing improvements to revenue collection was a large component of APFM’s support for non-tax revenue generation. There are numerous revenue-generating activities in almost all ministries. However, a limited number of revenue sources account for the bulk of non-tax revenue.

Consequently, operational support for ministries needed to be carefully targeted for the greatest benefit. Design of this activity was informed by the overall reviews of revenue performance and more in-depth reviews of non-tax revenue policies and procedures of the ministries that derive 80 percent of total non-tax revenues in Afghanistan.

APFM and counterparts in the Non-Tax Revenue Directorate and ministries proposed improvements for enhancing the capture of domestic non-tax revenue in all the key revenue-generating MDAs. APFM targeted six MDAs for review in the first year of the project, expanding that activity to an additional nine MDAs in the second year. MDAs APFM supported over the length of the project are listed in the table below.
TABLE 2: MINISTRIES WITH APFM NON-TAX REVENUE SUPPORT

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>Continued from Year 1</td>
</tr>
<tr>
<td>Ministry of Interior Affairs</td>
<td>Afghanistan Civil Aviation Authority</td>
</tr>
<tr>
<td>Afghanistan Civil Aviation Authority</td>
<td>Ministry of Information and Culture</td>
</tr>
<tr>
<td>Ministry of Information and Culture</td>
<td>Ministry of Transport</td>
</tr>
<tr>
<td>Ministry of Transport</td>
<td>Ministry of Public Works</td>
</tr>
<tr>
<td>Ministry of Public Works</td>
<td>Added in Year 2</td>
</tr>
<tr>
<td></td>
<td>Ministry of Labor, Social Affairs, Martyrs and Disabled</td>
</tr>
<tr>
<td></td>
<td>Supreme Court</td>
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<td></td>
<td>Ministry of Higher Education</td>
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<td>Ministry of Commerce and Industries</td>
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<td>Radio and Television of Afghanistan</td>
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<td></td>
<td>Ministry of Public Health</td>
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<td></td>
<td>Ministry of Education</td>
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<td></td>
<td>Ministry of Communications and Information</td>
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<tr>
<td></td>
<td>Technology</td>
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<tr>
<td></td>
<td>Afghan State Printing House (MoF)</td>
</tr>
</tbody>
</table>

The reviews focused primarily on fee rates for current services, and involved an examination of macroeconomic factors affecting fee rates since the fees were introduced and the marginal costs of providing the related services. The scope of the reviews was extended to examining the legal framework for adjusting rates and introducing new fee rates. Proposals were made for fee rate changes in line with good rate setting practice in all of the MDAs reviewed. APFM and counterparts also identified services for which fees are not being collected but could be introduced without affecting the level of service to the public or raising barriers to accessing public goods.

Not all changes sought to increase fees because, in some cases, it was determined that existing fees acted as a barrier to doing business. The reviews also made recommendations to reduce fee rates, such as fees charged for business licenses for small enterprises, and to eliminate fees entirely, such as fees charged for cases heard by the Supreme Court. All proposals for rate increases and new revenue sources were accepted by counterparts.

APFM estimated the full-year revenue impact of the proposed changes where transaction volumes were readily quantifiable at AFN 2.7 billion annually from new revenue streams and AFN 60 million annually from increases in existing revenue streams. However, implementation of many proposals depends on approval from other bodies or by the Cabinet, where many of the proposed fee rate changes are currently pending.

APFM also made recommendations on the need for public awareness, capacity building, automation of records, processes that would improve revenue management and reduce leakages, and electronic payments for non-tax services. A detailed study on the potential
for introduction of e-payment of transport user charges collected at the “five doors of Kabul” is covered in Section 3 of this report.

BUILDING STAFF CAPACITY IN NON-TAX REVENUE COLLECTION

As with tax policy, APFM focused on building the capacity of Non-Tax Revenue Directorate officials to implement improvements and streamline non-tax revenue collection. In designing the changes to fees, APFM advisors worked closely with tashkeel in the ARD’s Non-Tax Revenue Directorate and affected MDAs to provide relevant on-the-job training.

In late 2016, APFM organized a conference, attended by 27 participants from 23 ministries and agencies, to set revenue targets by collection unit for 2017. As well as providing a means to set appropriate revenue targets on an agency-by-agency basis, the conference also provided an opportunity to share best practice with regard to non-tax revenue collection, such as the adoption of e-payments.

In April 2017, APFM conducted a course on principles of non-tax revenue management, which covered the definition and classification of non-tax revenue, similarities and differences between tax and non-tax revenues, the principle of cost-covering fee rates, and a discussion of legal provisions and practical arrangements. The conceptual basis for establishing rates and mechanisms for non-tax revenue collection had not previously been shared with Non-Tax Revenue Directorate staff through formal training.

In May 2017, APFM participated in a study tour to Sri Lanka that provided Non-Tax Revenue Directorate staff with an opportunity to see and discuss modern collection practices such as e-payments. Knowledge obtained from this program has enabled staff to provide leadership in non-tax revenue collection practices among their client ministries and agencies.

IMPROVING THE TAX DISPUTE RESOLUTION PROCESS

A good tax dispute resolution process safeguards a taxpayer’s right to challenge assessments arising from audits and other decisions of the revenue authority. A process involving sequenced independent reviews ensures the outcomes are consistent and apply legislation correctly. A well-functioning dispute resolution process also provides insight into possible deficiencies in legislation, audit practices, or other activities that allow the revenue administration to identify and correct gaps in administrative capacity, deficiencies in processes, and areas of corruption.

In Afghanistan, the tax dispute resolution process is rarely used by taxpayers. This is due to taxpayers’ lack of knowledge of the right to contest tax assessments, along with a general lack of confidence in the dispute process or its outcomes. Tax disputes are sometimes resolved through informal processes which are unrecorded and open to corruption. Very few formal objections (administrative appeals) are filed in the ARD Objections Review Directorate (ORD), which creates two problems. The first is that insufficient data is available to provide insight into deficiencies in tax legislation, tax policy,
and tax administration. The second is that the low volume of objections and any subsequent judicial appeals mean that taxation officers and members of the judiciary have limited opportunities to develop capacity in this area through case work.

A further reason for intervention in this area is changes in the law. The new Tax Administration Law, adopted in 2015, made major changes to the tax dispute process, including broadening the range of matters against which objections can be brought (such as registration and enforcement related processes). The law also established a new Tax Dispute Resolution Board that taxpayers can use to obtain an independent review of an ARD objection decision. Together with the tax accountant registration system discussed below, the changes in tax dispute resolution processes are among the most significant tasks for the MoF in implementing the Tax Administration Law.

APFM provided support and capacity building to ARD staff in two tax dispute resolution areas. First, APFM reviewed and updated the Objections Manual to reflect changes to objection procedures made under the Tax Administration Law, and provided training to ORD staff on the changes in objection procedures. Second, APFM supported the establishment of the Tax Dispute Resolution Board by drafting a procedure that governs the functions, jurisdiction, processes, and staffing of the Board, together with terms of reference for Board members and staff. Finally, APFM supported the ARD in raising taxpayer awareness of the availability of the dispute resolution process.

As well as directly building ARD capacity, targeting the dispute resolution process is a strategic approach to supporting the ARD in improving its revenue reporting processes and enhancing MTO and LTO capacity. Sources of disputes with the ARD include increased assessments following audits by the MTO and LTO. The decision to provide technical assistance in this area is more efficient than providing thinly spread support across case management, audit, and enforcement functions, and complements the support provided by other donors in these areas.

IMPLEMENTING IMPROVEMENTS IN DISPUTE RESOLUTION
The new Tax Administration Law significantly impacts most processes that relate to tax dispute resolution. The largest change is that the law mandates the establishment of an independent Tax Disputes Resolution Board. However, staff were not in place to support the Board, and detailed rules governing its structure and processes did not exist.

To address this deficiency, in 2016 APFM drafted a procedure for the Board that governs its structure, functions, and processes, which was revised in collaboration with the ARD. In addition to the procedure, APFM also developed terms of reference for Board members and secretariat staff. These materials provide practical guidance for the operation of the Board, including organizational structure and membership, procedures on how to file an appeal, time limits on appeals, representation before the Board, the burden of proof, fees imposed, and target timeframes for expeditious resolution of appeals. This procedure and associated materials will provide taxpayers with a means to resolve tax disputes that is independent from the ARD and less formal than the courts.
APFM also undertook an assessment of the existing dispute resolution mechanism in Afghanistan and compared key functions to international practice. The objection process was considered against measures in the TADAT field guide, which was published in November 2015. The Tax Administration Law provided a clear set of challenges that shifted the order of activities in the work plan. This assessment provides the MoF with a road map for future activity in this area.

**DISPUTE RESOLUTION AWARENESS BUILDING**

Feedback from business and ARD staff was that a fundamental hurdle to the effective functioning of the dispute resolution process is lack of awareness of the right to appeal tax assessments, which is particularly the case in provinces. Objection review staff had been added to the Mustoufiat tashkeel since the development of the manual and public guidance on objections. Dispute resolution was an area that businesses had identified as problematic during stakeholder engagement activities, with low levels of knowledge or understanding on the process and a lack of confidence in its outcomes.

APFM supported the ARD in organizing and making presentations at public outreach events that are described in Section 3 of this report. At these events, taxpayers were informed of their right to contest tax assessments at the administrative and judicial levels. Including information on tax appeals as part of public outreach events is an effective means to increase the knowledge of both taxpayers and tax officials on the tax dispute mechanism. Information on taxpayer rights to contest tax assessments is also provided through the ARD website and ARD Call Center, both of which APFM supported.

**DISPUTE RESOLUTION CAPACITY BUILDING**

Capacity development was an important area of activity for APFM. Project advisors reviewed, updated, and upgraded the procedural manual for objections. The revised Objections Manual provides guidelines for ORD staff and provincial objections officers on how to process objections filed by taxpayers under the current law. It provides information on procedures that will help taxpayers file objections and staff at the ARD Call Center (established with APFM support and discussed in Section 3) advise taxpayers on objections procedures.

APFM also provided training and dialogue opportunities for objections review staff based in Kabul and provinces on general principles of tax dispute resolution. Participants learned about tax dispute resolution best practices and standards, changes in the new law, the procedure for appealing to the Board, and changes in the revised Objections Manual. This program of training helps staff, particularly the provincial staff who had been neglected, apply the new dispute resolution law correctly and consistently. A particular focus of the training was strengthening coordination with objections officers in provinces.
In August 2017 APFM organized and led a study tour to Malaysia to enable ORD officials to witness an effective tax dispute resolution mechanism.

Representatives of the Afghanistan Revenue Department, Inland Revenue Board of Malaysia, and Malaysia Special Commissioners of Income Tax attending a meeting in Malaysia on August 22, 2017, to discuss issues pertaining to tax dispute resolution mechanisms. The study tour for the Afghanistan Revenue Department was organized and led by the USAID APFM project.

ESTABLISHING A CADRE OF PROFESSIONAL TAX ADVISORS

In many countries, a cadre of professional tax advisors is developed and supported by tax administrations, as these professionals increase the integrity of the system by providing high-quality, independent advice to businesses on complex tax matters. However, in Afghanistan access to quality professional tax advice has been limited and has been marked by the existence of influence brokers—*kamishan kar*—who seek to provide taxpayer support services to the administration, but generally lack tax technical and accounting skills and may be associated with corruption.

In Afghanistan, the new Tax Administration Law recognizes the importance of establishing a cadre of competent tax professionals to support businesses. Under this law, the ARD is charged with establishing a system for examining and registering professional tax accountants, and an ARD functional unit was established to manage this new area of work. This is a priority in the MoF’s FPIP, but it has yet to receive donor technical assistance.

BUILDING THE NEW SYSTEM FOR CERTIFYING TAX PROFESSIONALS

APFM assisted the ARD in designing a set of regulatory procedures, process maps, and forms to support a system for the examination and accreditation of tax accountants. APFM also developed an accounting guide for tax accountants and a question bank to be
used for examinations. The accounting guide includes a complete outline of the steps for examination and certification of tax accountants, a syllabus of subject areas, and educational materials on accounting and taxes that will be subject to testing. The tax accountant examination will be based on this guide, the procedure, and existing manuals.

These materials will assist tax accountants in developing expertise in the tax law, and help the ARD ensure that it registers tax accountants who have the requisite level of skills and knowledge. The existence of such a cadre assists in leveraging tax expertise, as they can provide professional support to a much larger group of taxpayers.

BUILDING CAPACITY OF BUSINESS AND STAFF

In addition to the educational materials, APFM also organized two conferences to explain the new requirements to potential tax professionals in the private sector, together with training for ARD staff. Participants included tax practitioners, accountants from industry, accounting students, tax officials, and accounting trainers. Participants learned how tax professionals support businesses and tax administration in other countries, the reasons for introducing the system, the benefits of regulating tax accountants, and the registration process. APFM also provided the Tax Accountant Sub-Directorate with educational material on flash drives that contained the Certified Tax Accountant Accounting Guide, relevant tax legislation, and other tax information, for distribution to potential accountants. This will assist in future distribution of educational material and in promoting the profession.

With the support provided by APFM, the ARD is now poised to launch the examination and registration of tax accountants, which is expected to take place in early 2018. Approximately 1,000 candidates are expected to seek tax accountant registration.
USAID improves allocation of health, agriculture and education funds

APFM trains public finance staff in better allocating funds in line ministries and provinces

Afghanistan’s centralized budgeting system possessed a number of weaknesses that detracted from its ability to efficiently and transparently allocate resources for provision of services at the sub-national level to Afghanistan’s 34 provinces. Centralized resource allocation decisions often did not reflect provincial priorities.

To address these issues, in 2015 the Government approved a new Provincial Budgeting Policy to be piloted from the 2017 national budget by the Ministry of Public Health, Ministry of Education, Ministry of Agriculture, Irrigation, and Livestock, and Ministry of Rural Rehabilitation and Development. The policy ‘deconcentrates’ budget authorities and responsibilities from central to local authorities, giving provincial units of the pilot ministries a greater role in planning and budget formulation and increased control of their financial affairs. The outcome sought is better resource allocation for more efficient and effective service delivery.

For the reform to be effective, capacity needed to be built at both the central ministry and provincial levels, including capacity for the management of changes to functions, systems, and forms. It also required development of revised budgeting norms in the line ministries and at the provincial Directorate level, supported by a large training effort for effective rollout of the reforms. “APFM’s training on Provincial Budgeting Policy is supported by practical examples and work, which will lead to a better implementation of the reform at the provincial level,” said Ishaq Sarwari, Budget Department of the Balkh Mustoufiat.

APFM embedded advisors in the MoF’s Provincial Budgeting Unit and in each of the pilot ministries contributed to training events that improved the capacity of more than 2,500 central and provincial ministry staff to implement the new Provincial Budgeting Policy. APFM participated in training held for 1,180 officials between June and December 2016, and an additional 1,390 officials between July and September 2017.
SECTION TWO

IMPROVING BUDGET PLANNING AND EXECUTION

The primary objective of the APFM project is to improve fiscal sustainability in Afghanistan. Along with generating increases in revenue, disciplined realistic budgeting is required for the Government to achieve this aim. Concerns have been expressed about the credibility of the budget, particularly the poor execution rate of the Development Budget. For the fiscal years 2015 and 2016, the Development Budget execution outcome was 54 percent. When budgets are not delivered, citizens do not receive needed Government services or essential infrastructure. Thus, the second component of the APFM project aims to strengthen the Government’s public financial management systems to support its budget processes and increase capacity for formulating, planning, executing, reporting, monitoring and evaluating budgets at the national and provincial levels.

APFM’s public financial management activities were formulated to meet needs outlined in the Government’s Public Financial Management Roadmap-II, while avoiding duplication with other capacity development projects. Public financial management capacity development projects have concentrated support in the MoF, leaving capacity gaps in budget formulation and execution in central line ministries and in their provincial offices. Provincial budgets were developed centrally, with budgets not necessarily reflecting provincial needs or priorities.

A new Provincial Budgeting Policy was required under the Tokyo Mutual Accountability Framework. The policy, approved by the Government on November 25, 2015, devolves more authority and responsibility for budget formulation and execution to provinces. This policy required a sustained implementation effort, with four key spending ministries selected to pilot the policy: the Ministry of Agriculture, Irrigation, and Livestock (MAIL); Ministry of Education (MoEd); Ministry of Public Health (MoPH); and Ministry of Rural Rehabilitation and Development (MRRD).

Responding to this challenge requires capacity-building in the MoF, in central line ministries, and in their provincial offices. In November 2015, the USAID-funded ISLA project began providing technical assistance in 16 provinces. Other donor support was provided for budget execution. Consequently, APFM concentrated its support on budget formulation and planning in the MoF’s PBU and in the four ministries that piloted the Provincial Budgeting Policy. This pilot activity supported integrated budget planning and management policy and processes to meet national and sub-national priorities and help deliver better services to the Afghan people.

APFM assisted the PBU with developing the key budget guidance documents to implement the Provincial Budgeting Policy, which will help ministries integrate provincial planning into budget proposals and ensure budgets for each province in future years reflect provincial
needs. The project also helped develop the funding formula, distribution mechanism, guidelines, and forms used to provide funding to provincial administrations to support the unconditional funds initiative, and provided guidance to ministries on appropriate budgeting norms to ensure funds are distributed fairly among provinces.

APFM support helped the pilot ministries successfully implement the Provincial Budgeting Policy in the budget for 2017, bringing a meaningful shift in the role of sub-national entities in the allocation of budget resources. Reflecting the activities of APFM and other projects, in cooperation with the Government, Development Budget execution increased in each of the pilot line ministries in 2016, with increases in the percentage of money actually spent, ranging from 3.1 percent in the MoPH to 14.5 percent in MAIL. This activity continues throughout 2017 and as part of the preparation of the 2018 budget.

The Provincial Budgeting Policy notes difficulties faced by provinces in funding operational and maintenance costs of public assets, such as hospitals and schools. Inadequate maintenance funding leads to the destruction of existing assets and poor service delivery. Consequently, a new Operations and Maintenance (O&M) Policy was also approved by the Government in 2015, aimed at ensuring that adequate funds are allocated to the maintenance of existing and new assets, based on standards within the budget ceiling.

In addition to its work to enhance Provincial Budgeting Policy implementation, APFM also supported the PBU with developing guidance for the implementation of the new policy, and supported line ministries to implement the new O&M Policy, with the goal of improving their ability to plan, allocate, and manage operations and maintenance expenses. This support included providing advice on the guidance documents developed by APFM and the PBU in consultation with ministerial counterparts, and helping ministries implement the new O&M Policy.

A third area of work assumed by the project was support for a new national policy for obtaining and managing business investment through PPPs, which the Government introduced to attract investment via PPP ventures and reduce reliance on donor aid. A new Central Public Private Partnership Authority (CPPPA) was established in the MoF to facilitate PPPs.

Throughout its second year, APFM supported the Central Public Private Partnership Authority in implementing the PPP policy. Activities included reviewing policy and regulations, providing training, supporting and presenting at outreach events to raise business awareness, and helping review and manage PPP proposals.

Developing the public financial management skills of civil servants at the MoF and pilot ministries was a key focus of APFM’s budget activities. In coordination with other technical assistance projects, APFM developed capacity in the MoF, in the central offices of pilot line ministries, and in their provincial directorates.

APFM also organized and conducted training in the latest versions of important internationally-accepted budget diagnostic tools, including:
• The 2016 version of PEFA, which benchmarks overall public financial management.

• The PIMA framework, which was released in 2015 to provide an assessment tool for the quality of public investment decisions.

• The Open Budget Initiative, which promotes public access to budget information and the adoption of accountable budget systems.

• The International Monetary Fund (IMF) GFS Manual and COFOG.

• Tools for managing budget ceilings under the Medium-Term Fiscal Framework.

ENSURING BUDGETING MEETS PROVINCIAL NEEDS

In the past, Afghanistan’s Budget process has been marked by centralized decision-making on spending. Provincial departments were constrained by decisions of central line ministries that often failed to adequately account for differing needs in each of Afghanistan’s 34 provinces. To address this issue, a new Provincial Budgeting Policy was approved by the Cabinet of Ministers in November 2015.

The new policy deconcentrates fiscal authorities and responsibilities from central to provincial authorities, empowering local authorities to participate in planning, budget formulation, and control of their financial affairs. The policy outlines the responsibilities of provincial line departments, provincial governors, and provincial councils in the provincial budgeting process. The policy also focuses on coordination and communication between central and provincial directorates through the establishment of a public financial management committee. A recognized impediment to the implementation of this policy was overcoming a lack of relevant public financial management capacity in Government institutions.

APFM technical staff embedded in the PBU and in central offices of pilot line ministries supported implementation of the new Provincial Budgeting Policy. In coordination with other technical assistance projects, APFM also provided support to the pilot line ministries’ provincial offices.

SUPPORT FOR THE PROVINCIAL BUDGETING UNIT

APFM supported the PBU in implementing the Provincial Budgeting Policy. In March 2016, APFM assisted the PBU in finalizing 11 provincial municipality budgets and analyzing and finalizing 24 district municipality budgets. In April 2016, APFM staff assisted the PBU in developing presentations on the implementation of the Provincial Budgeting and O&M Policies.

To ensure the new Provincial Budgeting Policy was implemented effectively, the MoF’s Budget Reform Unit and PBU’s needed to take the lead in developing a decentralized provincial budgeting system that would synchronize and harmonize with the existing national planning and budgeting system.
APFM advisors embedded in the PBU contributed to the preparation of guidelines for the implementation of the Provincial Budgeting Policy, and then helped PBU staff review and amend the guidance, develop a Provincial Budget Manual, and revise other Budget Manuals to include provincial budgeting guidance. This work at the central MoF level fed APFM’s work in line ministries and with provinces, as explained below.

**IMPROVING PROVINCIAL BUDGETING IN LINE MINISTRIES**

In March 2016, APFM mobilized and embedded a public finance advisor in the MoPH, and another in MAIL in April 2016. These advisors identified thematic areas for budget support, assisted tashkeel in Kabul and provinces with proposals for budget projects, and developed a tracking system for budget mentoring. In MAIL, APFM’s advisor organized internal budget committee meetings, worked with senior officials to assign responsibilities, coordinated distribution of budget information to directorates in each province, and developed and shared an action plan to implement the Provincial Budgeting Policy.

Later, APFM embedded advisors in the MoEd and MRRD. Throughout APFM’s second year, the advisors embedded in line ministries continued to assist central and provincial ministry staff in improving budget management. Activities to advance implementation of the Provincial Budgeting Policy included improving intra-ministry dialogue, reviewing Development Budget outcomes, identifying challenges in budget execution, providing guidance and support on budget proposals, developing financial reporting for central and provincial directorates, mentoring tashkeel, monitoring and reporting on progress of development projects, and providing guidance on budget proposal coordination.

Through guidance and mentoring, APFM advisors built competency and knowledge at central line ministries and at the provincial level to enable officials to effectively engage in the new processes. In conjunction with other projects, APFM advisors and managers helped develop, organize, and conduct a series of workshops at the provincial level for the four pilot ministries on implementation of the Provincial Budgeting Policy for the 2017 budget. This support ensured that capacity to execute the budget reforms was developed at the central line ministries and in provincial ministry directorates, as well as in the PBU.

A strategic element of this support involved remapping line ministry functions affected by the Provincial Budgeting Policy and preparing job descriptions (terms of reference) to support tashkeel changes in line ministries and their respective provincial directorates.

APFM’s budget advisor in the MoF coordinated with the advisors embedded in the four pilot ministries to assist the pilot ministries in realigning job descriptions for planning directors, finance directors, and provincial budget directors to the new policy requirements at central and provincial levels. The design of appropriate job descriptions is a critical tool for reorganizing functions in central line ministries and provincial directorates to ensure that ministries will be capable of effectively implementing the Provincial Budgeting Policy.

The development of appropriate, objective funding norms is important to the efficient and equitable allocation of resources. APFM advisors in line ministries contributed to the
development of norms-based formulas and discussions with counterparts. For example, the APFM advisor in the MoPH developed a resource allocation formula to allocate the Development Budget on an equity basis, including eight criteria to be considered in allocating the Development Budget for 2017 to the provinces. In relation to operations and maintenance funding, APFM helped finalize formulas and mechanisms for allocation of operations and maintenance funding to budgetary units based on an analysis of multiple factors, such as number of assets, location, drivers of cost, and the available funds under the proposed budget.

SUPPORTING THE PROVINCIAL UNCONDITIONAL FUND INITIATIVE

The Provincial Unconditional Fund provides separate funding to provincial administrations to increase access to funds to meet their priorities. Access to this fund in 2017 was limited to the ministries piloting the implementation of the Provincial Budgeting Policy. USD $34 million is available from the Unconditional Fund, with each of the 34 provinces proposed to receive $1 million that needs to be allocated among provincial directorates according to an appropriate formula. APFM assisted the PBU with the design and implementation of the Provincial Unconditional Fund in coordination with other donors and technical assistance projects.

From December 2016, APFM managers in the PBU provided key input and support for the development of the formula and mechanism for fund distribution, together with guidelines and forms for the provincial utilization of funds. APFM managers then assisted the PBU in rolling out the unconditional funds in the first half of 2017, working with central ministries and provinces to guide proposal development, create budget codes, and facilitate allocation and execution of the funds. At the same time, APFM advisors embedded in the pilot ministries worked with ministry administrations to build capacity to process, allocate, and execute unconditional funds in accordance with planning timeframes following approval of project proposals.

APFM support for the design and implementation of this funding mechanism will help the funds be allocated equitably, and help provinces manage their unconditional funds to ensure they meet their needs. Separate budget codes for this fund helps ensure accountability for the funds by having funded projects tracked and recorded.

IMPROVING ASSET MAINTENANCE FOR BETTER SERVICE DELIVERY

The public sector in Afghanistan has acquired many capital assets, which play a vital role in service delivery. However, inadequate funding for maintenance of these assets in past budgets has undermined service delivery and shortened the useful life of these public assets. These problems are most acute in provinces.

On January 19, 2016, the Government approved an O&M Policy that aims to ensure that the budget is allocated according to realistic targets for service delivery that are set using appropriate norms, and that assets are kept in serviceable condition. Dedicated funding is
provided to 27 pilot agencies in line ministries that undertook to register assets and develop norms, cost drivers, and governance for asset maintenance.

**SUPPORT FOR THE MINISTRY OF FINANCE**

APFM public finance managers embedded in the PBU played a pivotal role in leading and guiding the implementation of this policy for 2017, helping MoF staff in meeting with the pilot budgetary units that initially qualified. They assisted the PBU in developing a draft planning template for recording O&M expenditures, a user guide of Excel-based tools, and associated guidance to monitor and evaluate the performance against submitted plans of ministries implementing the policy.

**SUPPORT FOR LINE MINISTRIES AND PILOT BUDGETARY UNITS**

APFM provided support at the line ministry level as well as to the MoF in implementing the O&M Policy. This support recognizes the impact on service delivery by line ministries of non-functioning assets, and helps ensure the policy is effectively executed at every level. APFM guided staff in pilot ministries on asset registration and helped develop appropriate norms and the formula for allocation of funds to budgetary units. Throughout 2017, APFM advisors visited agencies piloting the new policy and conducted spot-checks to confirm that O&M budgets were spent on assets that had been reported and to check the outputs of O&M activities.

APFM advisors embedded in the provincial budgeting pilot line ministries also provided agency-tailored assistance on operations and maintenance. They facilitated discussions and provided guidance on the development and refinement of formulas for allocating funding in their ministries. For example, in the MoPH, APFM prepared forms for recording and registering immovable and movable property and medical equipment, and used the Afghan Health Information Management System to assist the MoPH in developing and applying patient-based cost drivers for physical plant and equipment. In the MoEd, the APFM advisor drafted an allocation formula for equitable allocation of resources among provinces, helped develop a policy and parameters for funding operations and maintenance by school, and assisted with developing systems to report maintenance costs by school. These changes will ensure that hospitals and schools will be able to maintain their equipment, provide better care for the sick, and give students a better education.

APFM built capacity of tashkeel by involving them in defining key issues, accompanying them to meetings with ministry officials, and in guiding them in implementing the reform process. This approach promoted the transfer of knowledge and experience throughout the Government, and encouraged responsibility among tashkeel to manage this process in the future. The visits to agencies and spot-checks helped ensure transparency and accountability in processes that the PBU and ministries can follow in the future.

APFM helped the Ministry of Public Health expand reform of operations and maintenance from 13 to 34 provincial hospitals.
SUPPORTING AN ASSET MANAGEMENT INFORMATION SYSTEM

In 2016, APFM helped the MoF assess asset management practices Government-wide and review options to implement the new O&M Policy. In February 2016, APFM mobilized a short-term public finance advisor to review the asset management practices at five key line ministries, including those with responsibility for agriculture, public health, education, and public works. The advisor completed a feasibility study for an asset management system across Government in Afghanistan, which fed into a broad financial management systems study by the Treasury Department.

IMPLEMENTING A NATIONAL PPP POLICY

The Government is seeking innovative solutions to address its funding constraints, attract investment, and reduce reliance on donor aid. PPPs provide one way to attract direct investment and reduce reliance on donor aid. Internationally, projects and services financed and delivered through PPPs have provided infrastructure and services that are timely, high-quality, and cost-effective. Critical elements in the success of PPPs are public awareness and strong public sector capacity for planning, assessment, procurement, and monitoring.

PHOTO: USAID/APFM

APFM public finance advisor giving a presentation at a PPP workshop for representatives of the Ministry of Higher Education on February 22, 2017.
The Government gazetted a PPP Law in October 2016, and the Cabinet approved a National PPP Policy in March 2017. A new CPPPA was established in the MoF to drive the policy’s implementation. APFM was asked to provide support to the new authority.

APFM provided technical assistance to the CPPPA in preparing the new national policy on PPPs. Following its approval, APFM embedded a public finance advisor in the CPPPA, who organized, coordinated, and presented at awareness sessions on the new PPP approval arrangements to 520 participants in Government and the private sector. APFM also assisted the CPPPA on a range of other issues, which included developing standard proposal forms, establishing a PPP project database, proposing and supporting revisions to the PPP Regulation, and reviewing terms of reference for PPP certification training. APFM also reviewed and provided comments on proposals for PPP support, including Kabul Municipality functions, the proposed mobile services delivery platform, and digital broadcasting.

**IMPROVING THE BUDGET INSTITUTIONAL FRAMEWORK**

**IMPROVING DIALOGUE AMONG MINISTRIES AND PROVINCES**

An effective dialogue among the MoF, central offices of pilot line ministries, and their provincial directorates is necessary for the accurate evaluation and timely improvement of relevant budget processes. This need becomes critical given the scope of reforms that the Government has implemented, particularly provincially-based budgeting, the implementation of the O&M policy, and the accompanying changes to budgeting norms, as well as securing arrangements for funding through PPPs.

APFM’s embedded advisors and managers worked at the Deputy Minister’s Office and PBU level in the MoF, and with management in pilot line ministries, to support internal and bilateral meetings involving line ministries on emerging issues that impact the effectiveness of budget processes, programs, and execution. These included establishing and facilitating regular meetings, such as internal budget committees in line ministries, and ad hoc support for exigencies, such as meetings with the top 16 line ministries to discuss the slow execution rate of their development budgets. These meetings addressed matters such as monitoring and follow-up of budget allocation decisions, the practical application of Provincial Budgeting and O&M policies, budget procedures and execution, compliance with budget performance benchmarks that release donor funding, and budget hearings during 2016 and 2017. Contributions to enhancing the inter- and intra-ministry dialogue...
included supporting conferences and workshops in Kabul and provinces on the rollout of the Provincial Budgeting Policy.

The awareness sessions on the new PPP approval arrangements, involving 520 participants in Government and the private sector, provided opportunities for discussion of issues and opportunities among key players in Government and the private sector. APFM’s advisor also supported the CPPPA Director General and staff in liaising with the ACCI and organizing public awareness events for potential investors and businesses.

**IMPROVING THE BUDGET CLASSIFICATION SYSTEM**

Afghanistan’s budget documents do not currently meet international standards or fully comply with the requirements in the Public Finance and Expenditure Management Law. Classifying budget data in conformance with the IMF’s GFS Manual and expanding the detail of budget planning and execution data could help meet diverse information requirements from Government and improve budget management overall.

In April and May 2017, APFM provided technical assistance to compare Afghanistan’s chart of accounts and expenditure classifications system with international best practice and PBU information needs. APFM provided recommendations for improving budget and data presentation, including allocating responsibilities and updating systems. A ‘bridging’ table was prepared that maps the existing budget classification to the accepted IMF classification.

**IMPROVING THE MEDIUM-TERM FISCAL FRAMEWORK**

Medium-term fiscal and budget planning is an important element of Afghanistan’s efforts to promote fiscal sustainability. In an effort to improve the quality of the fiscal forecasting which underpins Afghanistan’s medium-term fiscal and budget frameworks, the MoF established a Macro-Fiscal Performance Directorate. The Directorate was established to assess fiscal risks and fiscal sustainability, analyze fiscal data and proposed policy, and provide high-level budget policy advice. These activities are critical to improving the quality of the Medium-Term Fiscal Framework.

From January 2016, APFM provided technical assistance to the new Directorate, with the aim of improving the reliability of fiscal forecasts at the macro level that drive the Medium-Term Fiscal Framework. APFM’s economic advisor embedded in the Directorate provided policy advice on expenditure proposals, forward estimates, and revenue forecasting that integrates macroeconomic data.

APFM’s economic advisor supported the development and implementation of the improvements to the Medium-Term Fiscal Framework process. Activities included co-chairing a follow-up event to the October 2016 Brussels Conference on public financial management of Afghanistan’s reforms and economic challenges, leading a costing exercise under the FPIP in November 2016, and providing technical assistance in forecasting and setting revenue targets for the 2017 budget. Other activities included establishing support
for the FPIP and ensuring funding sustainability for the performance management team that manages the FPIP.

In addition, in April 2017 APFM’s budget classification advisor conducted a workshop for 18 budget officers and advisors on managing budget ceilings. The workshop focused on international best practice and addressed difficulties that the MoF has experienced in linking its Medium-Term Fiscal Framework with its budget and ensuring that the budget does not depart from the fiscal envelope in its Medium-Term Fiscal Framework.

**DEVELOPING BUDGETING CAPACITY**

Development of *tashkeel* capacity is a key element of all components of APFM’s work. The appropriate strategy and modality of the training was determined in consultation with the PBU, with APFM leading its delivery in Kabul in coordination with other technical assistance provided to line ministries.

**STRATEGY AND MODALITY**

In Year 1, APFM and the PBU agreed to examine institutional arrangements for training, and actual training provided based on the requirements of the organization, its capacity, and needs. A questionnaire for human resources officials responsible for training selected managers and staff was formulated and distributed to selected pilot line ministries.

When designing the training strategy, APFM determined that the training was best institutionalized using experienced PBU and APFM subject-matter experts to provide training in the field to build a cadre of experts who will be able to: carry out the budgetary tasks for their organizations for the current and future budgets; disseminate requisite skills and knowledge to their financial administration colleagues; and be a source of reference and training in the future.

The modality of the training relied heavily on an experiential learning approach based around hands-on, practical case work, supplemented by formal training where necessary, in line with the 70/20/10 model for optimal learning and development. Experience in the development of the 2016 budget was considered when developing the strategy for 2017. As well as complementing the work done in advancing these reforms, this approach provided feedback on the effectiveness of the training.

In relation to curriculum content, APFM agreed with the Budget Department to focus on providing training on budget preparation, with an emphasis on implementation of the key reforms in the Provincial Budgeting and O&M policies. Two key groups of officials were identified: central and provincial staff involved in implementation of provincial budgeting; and Provincial Finance committees. This strategy is consistent with the emergent needs of Government and the assessment of the capacities of *tashkeel* with budget responsibilities in the four pilot ministries. Content for the two groups of officials is shown in the table below.
TABLE 3: TRAINING CURRICULUM BY TARGET GROUP

<table>
<thead>
<tr>
<th>Central and provincial directorate staff implementing provincial budgeting</th>
<th>Provincial Finance Committees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provincial Budgeting Policy</td>
<td>Provincial Budgeting Policy</td>
</tr>
<tr>
<td>Operations and Maintenance Policy</td>
<td>The budget system</td>
</tr>
<tr>
<td>Program budgeting</td>
<td>Tasks of the Public Finance Management Committee</td>
</tr>
<tr>
<td>Norms-based budgeting</td>
<td>Budget structure</td>
</tr>
<tr>
<td>Baseline costing</td>
<td>Budget arrangements and developments</td>
</tr>
<tr>
<td>Provincial Budget Circulars 1 and 2</td>
<td>Budget review and approval arrangements</td>
</tr>
<tr>
<td>Medium-term budgetary framework</td>
<td>Costing and estimation</td>
</tr>
<tr>
<td>Budget execution and related processes</td>
<td>Role of the Provincial Finance committees</td>
</tr>
</tbody>
</table>

The largest group by far was the tashkeel implementing provincial budgeting. In Year 2, this target audience was further segmented into three groups, with targeted training provided to each group. The delivery followed the budget calendar, particularly the key provincial activities concerning Budget Circulars (BC) 1 and 2. The audience segmentation, delivery location, and content is outlined below.

TABLE 4: TRAINING PACKAGES FOR IMPLEMENTING STAFF

| Segmentation of targeted audiences |
|---|---|---|
| Representatives of budgetary units in central administrations | Operational level staff at central offices of pilot ministries | Staff of provincial directorates in zones throughout Afghanistan |

| Training content |
|---|---|---|
| Provincial Budgeting Policy | Norms-based budgeting |
| Operations and Maintenance Policy | Project costing |
| Budget legal framework | Provincial unconditional funds |
| Structure and principles of the budget in Afghanistan | Provincial Budget Circulars 1 and 2 |
| Fiscal decentralization | Medium-term budgetary framework |
| Program budgeting | Budget execution and related processes |

Complementing these activities, an assessment was undertaken of the ability of officials in APFM-supported central line ministries to effectively engage in the budget formulation and reform processes. Data for assessment was obtained by disaggregating information obtained from a survey conducted by the Director General Budget (January/February 2016). The results confirmed the focus of this training curriculum.

In the initial rounds, it was decided delivery of this training would remain under APFM, with feedback gathered on the effectiveness of the materials and modes of delivery. Criteria for selection of local institutions was being developed for actual delivery through this mechanism in Year 3, but due to the project’s early closure this activity was referred to the MoF to pursue.
CAPACITY BUILDING METHODOLOGY

APFM advisors contributed significantly to developing curriculum, presentation material, handouts, and lectures, as well as to the organization and coordination of workshops and other events. From April to May 2016, APFM advisors prepared training materials and presentations, and in May 2016 APFM provided the bulk of the technical content at conference-style events at each of the four pilot line ministries.

For provincial training, APFM organized a train-the-trainer program for 10 ISLA advisors and new PBU tashkeel, which was delivered in June 2016. In that month, APFM conducted a workshop in Kabul for provincial directors of the four pilot ministries and provincial budgeting specialists from six provinces. APFM supported similar training at a further three events in Herat, Balkh, and Badakhshan, which increased the total of number of provinces that received training to 20. This activity continued into Year 2 of the project, when APFM managers, in conjunction with the ISLA project, supported the PBU in providing further training from July to September 2016.

PHOTO: USAID/APFM

APFM public finance advisor delivers BC 1 training at the Ministry of Public Health on May 10, 2016.

In 2017, APFM raised the profile of the budget initiatives and training. APFM provided technical input into presentations for a major symposium on April 18, 2017, presided over by the Minister of Economy and Acting Minister of Finance, where deconcentration and provincial budgeting were explained.
With the support of the PBU, a new training modality was devised to increase the provincial reach of the training for 2017. Ministries have directorates in 33 provinces in addition to Kabul, all of whom need training in budget reforms. However, security challenges make delivery of training to all provinces problematic, and travel to training is dangerous for staff in high-risk provinces. APFM advisors assisted the PBU in developing a sample form for initial budget proposals, together with a 45-minute video with screen shots and voice over instructions on how to complete the proposal form for a project. These were used for making a training video, which was made available to provinces on DVD and electronically through the Afghanistan Financial Management Information System. The video was made available to all 340 provincial line directorates in the relevant ministries that implement provincial budgeting reforms. This initiative by the APFM managers saved the Government considerable risk, time, and resources. Budget Director General Haleemi circulated an email to all departments within the Directorate expressing his appreciation for this initiative. He asked all departments to use this effective and efficient training method in the future.

The training provided in 2016 resulted in the transfer of knowledge of new budget requirements to a large and diverse group. It gave participants an understanding of the role and benefits of provincial contributions to the budget and budget autonomy, as well as information on how to ensure funding for maintenance of each pilot ministry’s fixed assets.

The 2017 round of training consolidated the training provided to date and extended its reach to more provinces. While the use of the training video reduced the amount of face-to-face training delivered, it meant that more provinces were able to access the training. In addition, the very low cost of production and delivery of the training video increased its affordability and sustainability, as evidenced by the expectation of the Director General Budget that this approach be used for future training delivery.

One desired outcome of the MoF’s Five-Year Plan is a Budget Department whose staff are qualified for their posts by way of certification, training, job rotation, and twinning with other organizations. APFM included two study tours that would give budget staff exposure to international experience on current budget practices. The first was held in Cape Town, South Africa, in November-December 2016, where officials learned about South Africa’s experience with fiscal decentralization, which is the purpose of the Provincial Budgeting Policy. The second was to Malaysia in August 2017, where participants learned about Malaysia’s experience and practice in gender budgeting, national development planning, performance management, monitoring and evaluation, inter-governmental financing, and sub-national budgeting. Senior budget staff expressed their appreciation to APFM for organizing the study tours, which provided very relevant content.
TRAINING IN CORE BUDGET DIAGNOSTICS AND CLASSIFICATIONS

The MoF seeks to gauge its transparency and effectiveness against international standards through the use of diagnostic and classification tools that comply with the IMF’s GFS Manual and COFOG. Afghanistan’s budget formulation and presentation have not fully complied with these standards, which has downgraded Afghanistan’s scoring in past PEFA assessments.

APFM conducted several training events in assessment tools for staff from the Finance, Economy, and spending ministries. In October 2016, APFM’s short-term budget classification advisor provided 25 staff from the MoF with an introduction to the standard GFS and COFOG. More intensive training was provided in April 2017, when APFM’s short-term public financial management diagnostics advisor provided training to 35 staff from financial and spending ministries and Parliament on the 2016 revisions to PEFA, which is the standard methodology for assessing public financial management performance. Another workshop was held in May 2017 for 22 staff from the MoF and Ministry of Economy on the relatively new PIMA framework, which assesses 15 aspects of planning, allocating, and implementing public investment. The diagnostics advisor conducted a third training event for 24 MoF staff on assessment against the Open Budget Index budget accountability system. Finally, in July 2017 APFM’s short-term budget performance monitoring advisor conducted performance monitoring and reporting workshops for 113 staff from 59 Government budget units.

These training events enabled the Government to determine what further steps are needed to ensure Afghanistan meets relevant international standards. The training in
standardized GFS, functional classifications, and PIMA will help improve Afghanistan’s understanding of its spending and its investment performance as a basis for targeting improvements. The PEFA training was timed to support Afghanistan’s 2017 review of its performance against that framework. Application of the training in Open Budget Index to address weak points in its assessment, such as opportunities for public participation, will improve budget transparency and relevance of spending to development needs.
SNAPSHOT

Communication innovation improves businesses’ understanding of taxes

New website and help desk provide more opportunities for businesses to obtain tax information

Through its outreach activities, APFM sought to identify obstacles that made it difficult for taxpayers to compute their tax liabilities, file their tax returns, and make tax payments. One key area identified for improvement was ready access to tax information. Women in particular expressed difficulties in obtaining tax information, with some expressing a reluctance to go to help desks at ARD tax offices. A 2015 survey had found that three-quarters of all taxpayers, and a higher percentage of business taxpayers, access the internet at least daily through their smartphones.

APFM’s website designer and editor worked closely with the ARD to design a new website that is user-friendly, highlights information businesses need, and is easier to read on a cell phone. This website provides space for the ARD to deliver expanded, current tax information.

Complementing the website is the ARD’s new Call Center. The Call Center technology and processes are designed to support both inbound taxpayer enquiries and outbound reminders about filing and payment of taxes. APFM procured the equipment to support the Call Center, developed procedures and scripts, and provided tax training for Call Center agents assigned by the ARD. The MoF’s news release for the Call Center also notes that taxpayers can use the website to lodge complaints regarding service issues.

Taxpayers empowered with tax knowledge are the first line of defense against official corruption, which thrives on taxpayer ignorance. Throughout Afghanistan, taxpayers can now more readily obtain tax information, without visiting a tax office or Mustoufiat in an inconvenient location. This reduces personal interaction with officials and the pressure on cramped enquiry counters, reduces reverse workflows from taxpayer mistakes, and eliminates opportunities for corrupt personal interactions.

“"We are committed to bring reforms and equip the departments with modern technology. With establishing this center, another step was taken to reform. By opening this center, communication with taxpayers and national traders will be conducted through a single window.”

Dr. Najeebullah Wardak
H.E. Deputy Minister of Customs and Revenue

PHOTO: USAID/APFM

H.E. Deputy Minister Najeebullah Wardak, APFM Chief of Party Paul Sisk, and ACCI Acting Director Khan Jan Alokozay cut a ribbon to inaugurate the ARD Call Center on September 26, 2017.
SECTION THREE

ADDRESSING CROSS-CUTTING AND DEMAND-DRIVEN ACTIVITIES

APFM was designed to provide technical assistance across project components that is flexible, responsive, and addresses needs and critical national priorities as they evolve. This section of the report details results from activities that were included as part of the cross-cutting and demand-driven component of the project. These activities were included to improve communication between businesses and the MoF, respond to opportunities to encourage new technology such as e-payment and open access to broadband technology, and address gender challenges in public financial management.

Key results from activities under this component included:

- An internship program for recent college graduates to help build a cadre of professional public financial management staff in Afghanistan.

- Several tax compliance roundtables as information exchange groups that provided businesses with an opportunity to raise issues and problematic aspects of tax administration and develop solutions with the tax administrators.

- Support for tax public outreach events that contributed to a significant increase in MTO return filing and tax clearances.

- A new, user-friendly website for the ARD and the establishment of a Call Center at the ARD, both of which make information easier to access without visiting an ARD or Mustoufiat.

- Design of a computerized transport sector revenue collection system to allow transport operators to make e-payments of fees, which will reduce corruption and increase non-tax revenue.

- Support for implementing the Open Access Policy, which will increase broadband competition with the aim of decreasing retail prices and increasing reliability.

ADDRESSING GENDER ISSUES IN REVENUE AND BUDGET LAW AND PRACTICES

Gender inequality is a development challenge for Afghanistan, with inequity taking many forms. Any inequity in the treatment of women by the revenue system has the potential
to adversely impact women's participation in business. As the gender impact of public financial management laws and practices on women in Afghanistan had not been adequately considered, APFM assessed Afghanistan's income tax and public financial management laws, together with relevant administrative practices, to identify any gender bias in current laws and practices. The assessment concluded that there is no gender bias in Afghanistan revenue and budget laws, but gender bias in revenue and budget practices may exist. In April 2016, APFM hosted a conference that provided an opportunity to present and discuss findings and recommendations from its review to a range of representatives from Government agencies, Parliament, donor and international organizations, civil society, and academic institutions. Issues raised concerning women’s access to information about taxation were taken up in designing the communication strategy and campaigns described in the next section.

PHOTO: USAID/APFM

APFM gender advisor speaking at an APFM conference on Gender Issues in Revenue and Budget Laws and Practices in Afghanistan on April 17, 2016.
ESTABLISHING AN APFM INTERNSHIP PROGRAM

APFM organized an internship program for recent university graduates to pursue civil service careers in public financial management. In total, eight took part in the internship program. APFM planned to select another group of interns for Year 3 of the project, but this was canceled due to the descoping of the project.

The interns found the program to be an extremely valuable learning experience. One female intern with an interest in public health acquired valuable experience while working with APFM's public finance advisor embedded in the Public Health Ministry and with APFM staff. She was selected for a two-year program to study public health at a prestigious Japanese university, with plans to return to Afghanistan and apply her knowledge here. Other interns were also accepted for graduate study abroad or accepted finance positions based in Kabul.

“Visiting the Ministry of Public Heath regularly from the side of APFM project was a chance for me to become aware of the actual budgeting process that Ministry staff are doing and be involved in challenges that they are facing in implementation of reforms and working with provincial officials.”

— FATIMA APFM INTERN

PHOTO: USAID/APFM

APFM intern conducts research on public financial management issues on July 11, 2016.
IMPROVING TAX COMMUNICATION AND CLIENT SERVICE

Afghanistan’s tax system is built around self-assessment of taxes, where taxpayers are expected to determine their tax liability, file returns, and pay their liability. For this system to work, and to safeguard against corruption, the revenue administration must provide taxpayers with the information they need to compute their liabilities, complete their returns, and pay their tax. To support the system, the tax administration needs to educate taxpayers on their rights and obligations and provide support services. Feedback from businesses indicated that the ARD’s taxpayer service efforts could be improved.

Based on its review of past public outreach activities, past donor support, existing products, and ARD input, APFM developed a communications strategy for the ARD. In the past, the ARD was heavily dependent on donor support for costly mass media campaigns. Recent efforts have focused on utilizing more cost-effective channels, such as social media. Key intermediaries, such as tax accountants and industry associations, are assuming more prominence and can be enlisted to support tax education efforts.

Taxpayer outreach is a means to ensure that taxpayers understand and can comply with their tax liabilities. Face-to-face communication, information available on the internet, and the opportunity to raise queries by phone are all valuable tools in increasing taxpayer knowledge and improving taxpayer service. Taxpayer feedback helps revenue administrations fine-tune their activities to improve their client service. APFM support was provided in all of these areas, as described below.

TAX INFORMATION EXCHANGE WITH BUSINESSES

Reducing tax compliance costs and increasing tax compliance promotes private sector development, reduces tax administration costs, and increases tax revenue. APFM held two tax compliance roundtables (in December 2016 and March 2017), which were attended by representatives of large companies and tax advisory firms, to discuss tax compliance issues facing large businesses in Afghanistan. Businesses raised many concerns about communication, taxpayer information, dispute resolution, and many issues on the application of existing tax laws in areas such as filing, payment, and penalties. Two ARD representatives attended the second roundtable, where they responded to questions and issues raised by business representatives.

Roundtable participants appreciated this opportunity for large businesses to discuss tax compliance issues, as well as APFM’s initiative in organizing these events. Discussion of these issues and receipt of proposed solutions offered by the business community provided valuable information to the ARD, and helped guide and target APFM’s activities on tax policy, tax dispute resolution, ARD communication and client services, and other areas of APFM assistance.
A representative of the Afghanistan Revenue Department listens to tax compliance issues raised by representatives of Rahim Gardizi Steel Company and Afghanistan International Bank at an APFM tax compliance roundtable held on March 8, 2017.

TAX OUTREACH CAMPAIGNS

Changes to tax legislation, such as enactment of the Tax Administration Law, created a need for detailed, hands-on guidance on new requirements and forms, with APFM and the ARD agreeing on increased emphasis on face-to-face communication with taxpayers at outreach events. The medium taxpayer group is a significant element of the taxpayer market, generating approximately 40 percent of all taxes collected. The ARD decided to target medium and small businesses at outreach events because they have less tax knowledge than large businesses. APFM supported the ARD in organizing events targeting the needs of industry sectors within Kabul and in key provinces.

Starting in December 2016, APFM financed and helped organize tax public outreach events for taxpayers registered with the Medium and Small Taxpayer Offices. Most of these events, which covered practical matters such as how to complete a tax return, were held during the ARD’s annual “Tax Week” campaign, which marks the beginning of tax filing season. As well as Kabul, APFM also supported outreach events in the provinces of Herat, Balkh, Kandahar, and Nangarhar. These events were attended by 1,479 participants from 881 different organizations.

At the closing ceremony for the 45-day Tax Week awareness campaign held on February 4, 2017, MTO Director Amina Ahmadi reported that about 2,500 taxpayers participated in the public outreach events, and that the compliance rate for MTO taxpayers increased dramatically during the last 40 days compared to the same period in previous years, with
7,000 corporate and 1,000 individual tax returns filed and 2,500 tax clearance certificates issued. The MTO recognized the vital support APFM provided in organizing and participating in the public outreach events.

USER-FRIENDLY ARD WEBSITE

Tax administrations worldwide have relied on the internet to provide information to taxpayers, which typically needs to be detailed and lengthy. Afghanistan is no exception, with the vast majority of medium and large taxpayers, and an increasing number of small businesses, having access to the internet. The ARD provides taxpayers with tax information in English, Dari, and Pashto through its website, but the layout and functionality of the ARD website no longer met the needs of taxpayers, who increasingly access the internet using smart phones.

APFM technical staff extensively workshopped functional requirements and website design with ARD staff and designed content and navigation that best addressed identified functional requirements, organized a domain name and hosting service, reviewed existing publishable materials, and worked with ARD directorates to ensure up-to-date documents were uploaded to a new ARD website. The site was launched on August 9, 2017. APFM accompanied this launch with training sessions for ARD staff on content management to ensure sustainability of the website through ARD’s capacity to use, update, and maintain the site.

The new ARD website is more user-friendly and its content is more readily accessible, particularly on mobile devices. It also provides additional functions over the previous website, such as an exchange rate calculator. The ARD expressed great satisfaction with the work of APFM and the new ARD website.

CALL CENTER FOR BETTER CLIENT SERVICE

Effective tax administration of a self-assessment system is built on taxpayers having the information they need to determine their tax liabilities. A tax administration needs to provide general tax information and enquiry facilities for specific queries from taxpayers. While the ARD has enquiry counters at its offices, using these counters may not be convenient for some taxpayers. The internet is often an effective means to provide information to taxpayers. However, some taxpayers in Afghanistan, such as small businesses, may not have ready access to the internet. A further important element of taxpayer service that was not available in Afghanistan was a call center that allowed businesses to obtain tax information by phone. In line with its forward planning, the ARD requested APFM assistance to set up a call center.

In May 2017, APFM procured equipment and oversaw installation of the physical Call Center, developed operational procedures, and trained staff. The Call Center responds to inbound taxpayer requests for information and outbound calls, such as reminders to pay debts and invitations to upcoming tax outreach events.
The Call Center was a key priority of the ARD under its revised public education mandate. As part of preparation for the launch of that center, APFM advisors with previous tax and call center experience developed operational documents, including policy and procedures, compiled frequently asked questions and responses, and trained three female and nine male ARD staff in call center operations. APFM also provided ARD staff with practical exposure to the operation of a call center as part of a study tour to Kosovo.

At a media event to launch the Call Center on September 26, 2017, His Excellency Dr. Najeebullah Wardak, Deputy Minister for Customs and Revenue, and Abdul Habib Zadran, ARD Director General, expressed their appreciation to USAID and APFM for funding and establishing the Call Center. At the event ACCI Acting Director Khan Jan Alokozay expressed his appreciation for the Call Center and other reforms made by the ARD to benefit taxpayers.

**SUPPORTING E-PAYMENT AND E-FILING**

Electronic services, particularly e-filing and e-payment, are used in many countries to reduce taxpayer compliance burdens and improve tax administration efficiency. E-filing often is introduced before e-payment because e-filing generally provides the greatest benefits to taxpayers in reducing tax compliance costs, and to the tax administration in reducing administration costs, particularly keying-in return data. However, e-payment systems are still new in Afghanistan and their viability for particular business needs varies. A comprehensive program for providing e-filing and e-payment is typically undertaken over several years.

APFM conducted an assessment to determine legal and technical requirements for implementing e-filing and e-payment of tax, developed an action plan based on this assessment, and organized capacity building activities to build tashkeel capacity in understanding how e-filing and e-payment systems work in other countries. APFM also championed the value of e-payment with ministries as a means of paying non-tax revenue.

APFM’s support for the use of innovative technologies such as e-filing and e-payment, together with the MoF’s desire to automate processes, has resulted in ARD plans for e-filing of tax returns and e-payment of non-tax revenue being elevated to flagship measures under the MoF’s 2017 FPIP.

**TAX E-FILING AND E-PAYMENT**

As in other countries, the introduction in Afghanistan of e-filing and e-payment will help taxpayers calculate and pay the correct tax, particularly where tools and calculators that assist in calculating tax liabilities are provided as part of the e-filing system. E-Filing and e-payment also decrease the workload of tax administrations by reducing the need to distribute, receive, and enter data, archive paper tax returns, and match and reconcile tax payments with tax returns. These services also reduce opportunities for corruption receive very high taxpayer support.
APFM’s activities under this work stream were designed as enablers that will assist the ARD and the broader Government in implementing these services as part of its broader program to support e-commerce and e-government. Assessment of opportunities and risks had two elements: a study of the technical feasibility of e-filing conducted jointly with the Department for International Development’s (DFID’s) earlier Tax Administration Project; and a broader e-services assessment undertaken by APFM that addressed e-filing and e-payment more comprehensively, considering information technology capacity constraints on the ARD that were highlighted by the World Bank.

The e-services assessment considers the existing constraints associated with the ARD’s SIGTAS system and inter-operability with Da Afghanistan Bank systems. It maps out a series of e-services provided as successive small steps toward the development of a full platform for e-filing and e-payment. The solution also identified aims to ameliorate SIGTAS issues and improve its performance and reliability. The subsequent e-services action plan estimates timeframes to develop the building blocks to progressively provide calculation tools, downloadable forms, e-filing, and e-payment.

Several factors impact the timing of the implementation of ARD e-services. The ARD’s short-term priorities are implementation of SIGTAS in additional provinces and establishment of an interface between SIGTAS and the Customs Department’s Automated System for Customs Data. Further, tax e-services will compete with other activities that seek funding for delivery of e-commerce and e-government.

APFM responded to these capacity constraints by putting capacity development at the core of the e-services assessment and action plan. The proposed program starts with small functions that are built progressively on existing infrastructure and do not overburden staff or information technology infrastructure. The program identifies areas where international experts can assist and train local staff, and outlines staffing and skills needs for e-services. APFM also organized and supported a study tour to enable ARD officials to meet with counterparts in Kosovo’s tax administration, which has successfully implemented e-services that interface with SIGTAS.
E-PAYMENT OF TRANSPORT CHARGES

Non-tax revenue is another area where there is scope for the implementation of e-payment. President Ghani had appointed five successive committees to address the grievances of transport operators and resolve the difficulties of ministries and departments that collect transport charges at the gates to Kabul, weighbridges, and land border posts. As the work was not conclusive, APFM was asked by the ARD to design a system to collect and record cashless transport payments.

APFM developed a detailed design for a single window, computerized transport revenue collection system and steps for implementation. The design followed extensive stakeholder consultation, is based on international best practice, and is tailored to Afghanistan requirements. The system aims to increase revenues by preventing reduction of charges and theft of cash, preventing overcharges, delays, and damage to transport operators’ loads, and improving the efficiency and effectiveness of collection processes. The proposed collections process will meet the needs of all stakeholders, be practical in Afghanistan, and adaptable to take account of future needs and systems capabilities.

If this system is adopted, the Government and Kabul Municipality will benefit from better revenue collection and fewer opportunities for corruption, while transport operators will benefit from reduced trade barriers created by illegal and extorted payments, complex processes, delivery delays, and damage to goods.
IMPLEMENTING AFGHANISTAN’S OPEN ACCESS POLICY

Afghanistan’s Open Access Policy follows international best practice by providing equal access to mobile network operators to transmission infrastructure, including through transmissions through fiber optic cable. Implementation of this policy: benefits consumers by increasing the quality of services and speeding the rollout of mobile broadband internet; benefits mobile network operators by providing opportunities for additional revenue through new services; and benefits investors by providing opportunities for new entrants to the market. Government benefits through preserving and growing the revenue base through greater consumer use of broadband internet, sales of additional licenses, spectrum auctions of broadband internet, and revenues from international broadband capacity transiting through Afghanistan via fiber optic cables.

With USAID support, the Open Access Policy was promulgated through a decision of the High Economic Committee on August 28, 2016, that required open access to fiber optic cable, implemented by creating a competitive regime open to both new entrants and existing licensees. This was followed by a decree of the Minister for Communications and Information Technology issued on October 3, 2016. However, implementation of the policy did not proceed and deployment of fiber optic cable and 4G networks had still not been permitted in practice.

APFM was requested to provide assistance from January 2017 to kick-start implementation of the Open Access Policy, addressing obstacles to its implementation.
and regulation, certification and licensing, revenue determination, quality control, and security aspects. From January 2017, an APFM advisor worked with a USAID representative to identify barriers and milestones to full implementation of the Open Access Policy and solutions to these barriers. The consensus achieved transformed into decrees, decisions, and a draft infrastructure license.

This activity culminated in the Minister for Communications and Information Technology issuing a decree on February 24, 2017, granting licensees the right to install and operate fiber optic cable networks, deploy associated infrastructure immediately, and announcing that the mobile network operators have been authorized to deploy 4G services immediately. This clears the official obstacles to the deployment of fiber optic cable and 4G mobile internet services.

“The lately approved Open Access Policy would lead [to] much more improvement and further investment in communication, and the information technology sector would develop as well.”

— MR. ATIQULLAH NUSRAT CEO OF ACCI
SECTION FOUR
LESSONS LEARNED AND RECOMMENDATIONS

RELATIONSHIP BETWEEN OUTPUTS AND OUTCOMES

Afghanistan has undergone a sustained period of reform to its tax system following the change in Government in 2001. Initially, Afghanistan witnessed a significant growth in revenue as a percentage of GDP, albeit from a very low base. The economic stimulus from massive amounts of capital inflows and activity contributed to the growth, along with revenue reforms. In recent years, economic growth has faltered due to the reduction in investment and the drawdown of international forces. However, despite lackluster levels of economic growth, domestic revenue increased substantially during the period of the APFM project, reflecting the impact of new sources of revenue and improvements in tax administration.

A 2011 report by the IMF, OECD, UN, and World Bank for the G-20 Development Working Group outlined a fundamental issue of revenue reform and the usually lengthy period between inputs to change and outcomes:

There are no quick fixes, and sustained results have come from cases where external support has taken a comprehensive institutional approach and been delivered over a period of years, if not decades …

Similar comments could be made about budget reform, with programs of deconcentration of decision-making power typically taking a decade to be properly embedded and functioning effectively in public institutions.

APFM provided support for just over two years to revenue collection and budget functions, a comparatively short period of time in Afghanistan’s 16 years of revenue and budget reform since the 2001 regime change. Consequently, determining APFM’s impact is problematic in the short term, as many impacts are realized in the long term. There are many promising signs of strategic change. The MoF’s inclusion of promotion of e-payment of revenues as flagship reforms in the FPIP, the mandating by the Director General Budget of APFM’s cost-effective approach to delivering training programs to provincial offices, and the decree for implementation of the Open Access Policy by the Minister for Communications, are all important steps toward transparency, cost effectiveness, and better outcomes for consumers.

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The IMF-OECD-UN-World Bank report also comments on a prime driver of successful reforms, which has been employed by APFM in the design and execution of its work plans.

Success stories suggest that outsiders have delivered support according to local needs, in line with the principles of the Paris Declaration on Aid Effectiveness.

APFM has built its work plans based on priority needs in the framework of the MoF’s FPIP, with each APFM activity supporting a link priority need in the FPIP. This approach has ensured that there has been broad agreement between the Ministry and APFM on the activities to be performed to advance FPIP goals. In addition, APFM sought to build on the work of previous aid projects and avoid duplicating work performed by programs managed by other donors, particularly the World Bank, with the result that APFM’s reforms and capacity development activities in the short term have been integrated into those of earlier and parallel projects.

**RECOMMENDATIONS FOR FUTURE WORK**

APFM provided strategic technical assistance on important areas of fiscal policy design and its administration. Due to limited resources and timeframe, the project could not provide the needed logistical and operational support to central and national efforts aimed at improving tax collection efficiency. Nonetheless, the project laid the foundations for a significantly improved tax administration authority that has optimal tax policies and strong willingness to bolster tax administration.

Future work may focus on tax base-broadening activities in addition to improving taxpayers’ compliance. It is clear that Afghanistan has one of the lowest tax rates in the region and internationally. Efforts to revise tax policies may not have a major revenue raising impact compared to efforts aimed at raising efficiency of administering the tax policies.

**MANAGING COUNTERPART EXPECTATIONS**

APFM was shorter in duration and considerably smaller in scale than USAID’s previous Economic Growth and Governance project and the decade-long series of DFID-funded projects that ended in February 2016. Counterparts expressed initial dissatisfaction with the level of capacity development resources provided under the APFM project, and some sought assistance that was considerably beyond APFM’s scope and budget. This delayed counterpart concurrence to the first work plan but not the implementation of project activities. The Technical Committee established by USAID proved to be a valuable forum for issues to be raised by USAID, APFM, and counterparts.

**RECRUITMENT AND RETENTION OF STAFF**

Revenue reform and public financial management are highly specialized areas, and recruiting and retaining appropriately qualified staff for technical and operational positions was a constant challenge. Some advertisements failed to yield suitably competent, qualified candidates. Further rounds of recruitment occurred when staff left after obtaining Special
Immigration Visas. In addition, the adoption of the National Technical Assistance (NTA) salary scale in the second half of 2016 made hiring new operations and technical staff more difficult, as salaries under the NTA scale are significantly lower than those many qualified applicants had previously received. Fortunately, APFM was able to fill most technical and operational positions and, as the NTA scale became more widely known and adopted, this became less of an issue in recruitment.

APFM also was required to convert embedded staff (technical staff working at the MoF, ARD, and line ministries) to the NTA salary scale. For most APFM embedded advisors, conversion to the NTA salary scale did not result in a significant reduction in base salary. However, the 25 percent hazard pay could not be paid to staff under the NTA scale, so all embedded advisors received at least a 25 percent reduction in their total pay.

SECURITY AND LOGISTICAL CHALLENGES

APFM embedded national staff at counterparts, including the MoF, ARD, and pilot line ministries. APFM’s revenue component director visited the ARD frequently, while the budget component director worked at the MoF on a daily basis, although not for the entire day due to security concerns. APFM leadership (Chief of Party and Deputy Chief of Party) also frequently met with counterparts at the MoF and ARD. Short-term international advisors worked at their respective counterparts on a daily or frequent basis, depending on their activity.

Due to APFM’s security platform, international staff could not be embedded at counterpart sites on a full-time basis. This differs from other projects, which allow international staff to be embedded at counterpart sites. Further, APFM international staff were sometimes prohibited from going to counterpart sites due to immediate security threats.

Despite security costs and constraints, APFM maintained a strong presence at counterpart sites, which significantly contributed to the high level of technical assistance provided to counterparts. While an even greater presence would be desirable, given APFM’s robust security platform and the high-risk locations, an increased presence is not feasible at this time.

DONOR COORDINATION

APFM has encountered varying levels of interest in coordination and cooperation from other donors. DFID and the Australian Department of Foreign Affairs and Trade projects were supportive and enthusiastic for their work to be carried on, and worked with APFM to design activities that built on the work they performed. In contrast, the detailed annual Procurement Plan for the World Bank Project was never shared by the World Bank or ARD with APFM. The driver for this reticence is unclear. This approach of keeping information from other donors was repeated in their interactions with the U.S. Treasury and the Asia Foundation. It made avoiding overlap with technical assistance provided by other donors more difficult. It also makes the attribution of project results, already problematic, more difficult. Without formal agreements to share detailed work plans it is
likely that technical assistance will be duplicated, and that unnecessary gaps in assistance will occur. APFM recommends regular, formal meetings at the operating level with other donors and counterparts to provide an opportunity for greater collaboration in work planning and in sharing successes and lessons learned.

**DElIVERY OF TECHNICAL REPORTS AND GUIDANCE.**

APFM produced 13 technical reports and guidance documents in Year 1 and 22 in Year 2 (not including reports on three study tours and two tax compliance roundtables). It is recognized that staff need capacity building in many areas, yet there is no formal provision for assistance with the dissemination of understanding of the reports. The application of the conclusions of technical reports is put in jeopardy because counterpart staff may not be confident in following up on the analysis and conclusions. While this increases the time involved in development, and reduces the absolute number of reports that can be produced, face-to-face presentation of technical assistance reports is critical. The activities in an annual work plan should include time for the detailed presentation of technical reports to the widest possible audiences who will be tasked with implementing the recommendations.
ANNEX A. M&E DATA

Despite a seven-month reduction in the life of the project (LOP), significant progress was made against LOP targets for indicators APFM tracked or measured. Progress made on indicators for the LOP is reflected in the APFM Performance Indicator Tracking Table. A brief description of progress made on selected indicators is provided below.

Under the revenue component, two indicators were used to track changes in revenue collected. First, in years 1 and 2 the project tracked the annual increase in domestic revenue as a percentage of GDP. The indicator is calculated using combined annual tax and non-tax revenues as a percent of the total annual GDP of Afghanistan. The total revenue recorded by the Government was 11.3 percent of GDP in the last reporting period for the project. When compared to the baseline value of 8.3 percent reported in 2014, the actual increase was a positive 3.0 percent, which equates to a 36 percent increase from the baseline value. In Year 2, the project added a second indicator, annual increase in the ratio of tax collections as a percentage of GDP. For the one-year measurement period, the indicator increased an impressive 3.9 percent over the previous year.

Under the budget component, the project initially included an indicator measuring the full implementation of program-based budgeting. In response to changes in Government priorities, particularly implementation of the Provincial Budgeting Policy, O&M Policy and PPP Policy, in Year 2 this indicator was replaced with an indicator that measured the number of budgetary units which improved their public financial management systems. APFM improved systems in five targeted ministries, each of which includes activities in central ministry, line ministry, and provincial budgetary units. Similar to the revenue component, the breadth of support provided by the APFM project is reflected in improvements to 16 budgetary procedures, standards, or guidelines, representing an 80 percent achievement of the three-year target.

Also under the budget component, in the second year of the project USAID requested APFM to include an indicator to measure the change in the Development Budget execution rate in the following targeted line ministries: MAIL, MoEd, MRRD, and Ministry of Public Works. The abbreviated measurement time resulting from the early project closeout contributed to mixed results for this indicator. Budget execution rates increased by 3.6 percent at MoPH, and by 14.3 percent at MAIL. These gains were offset by decreases of 2.4 percent at MoEd and 10.2 percent at MRRD, resulting in the under achievement of the target set for this indicator.

In the area of e-services, APFM’s extensive activities are reflected in its over achievement of the indicator based on days of technical assistance provided on electronic filing and payment systems. In Year 1, APFM retained a short-term e-services advisor, who conducted an e-services assessment and drafted an e-services action plan. In Year 2, at the Government’s request, APFM retained a short-term payment systems advisor who, based on an extensive assessment, designed a computerized transport revenue collection system.

Regarding capacity building activities, APFM facilitated a total of 18,638 person hours of formal training on fiscal policy and fiscal administration, in which 2,900 Government officials were
trained. APFM provided 3,505 person days of technical assistance. The capacity building target for days of assistance was met for the three-year period, while targets set for formal training were not. This reflects the complexity and variety of the technical assistance needs, with a shift in emphasis to one-on-one learning and institutional development of products such as forms and guides, as opposed to formal training sessions.

In response to multiple Government requests, APFM ran, facilitated, or supported 86 capacity building events and organized 18 public outreach events during the two years of the project, which almost reached the targets set for these indicators for a three-year period.
### TABLE 5. APFM PERFORMANCE INDICATOR TRACKING TABLE

<table>
<thead>
<tr>
<th>Indicator Number</th>
<th>Indicator</th>
<th>Target</th>
<th>Achieved</th>
<th>Life of Project Results</th>
<th>Percentage Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1, year 1</td>
<td>Annual increase in domestic revenue as a percentage of GDP. Baseline 8.3%.</td>
<td>10.7% (2017)</td>
<td>11.3%</td>
<td>Target achieved. Revenue rose to a record high.</td>
<td>105.6%</td>
</tr>
<tr>
<td>EG 1.1-2, year 1</td>
<td>Annual increase in the ratio of tax collections as a percent of GDP.</td>
<td>10.3% (2017)</td>
<td>3.9%</td>
<td>Significant increase against base, but below a very ambitious target.</td>
<td>38%</td>
</tr>
<tr>
<td>1.1</td>
<td>Tax policies, regulations and administrative procedures improved.</td>
<td>33 (3 years)</td>
<td>31 (2 years)</td>
<td>Target almost achieved despite early project closure.</td>
<td>94%</td>
</tr>
<tr>
<td>2.1</td>
<td>Budgetary units fully implemented program-based budgeting.</td>
<td>4</td>
<td>0</td>
<td>This indicator was replaced with indicators that more accurately reflected the results of APFM technical assistance.</td>
<td>N/A</td>
</tr>
<tr>
<td>2.1</td>
<td>Public sector entities with improved financial management systems.</td>
<td>10 (years 2-3)</td>
<td>5 (year 2)</td>
<td>Budget systems were improved at MoF, MAIL, MoPH, MoEd, and MRRD, achieving the Year 2 target.</td>
<td>50%</td>
</tr>
<tr>
<td>2.2</td>
<td>Budgetary procedures, standards, guidelines developed or improved.</td>
<td>20 (3 years)</td>
<td>16</td>
<td>The life of project target set for three years was largely achieved by the end of Year 2.</td>
<td>80%</td>
</tr>
<tr>
<td>2.3</td>
<td>Increase in execution of Development Budget.</td>
<td>2.5%</td>
<td>1.3%</td>
<td>This target was added in Year 2. Outcomes varied considerably among target ministries and reflect a partial year.</td>
<td>53.2%</td>
</tr>
<tr>
<td>3.1</td>
<td>Number of individuals who received information through tax public outreach programs.</td>
<td>2,000,000</td>
<td>0</td>
<td>This indicator was replaced in Year 2 with a measure reflecting public outreach events (4.5 below).</td>
<td>N/A</td>
</tr>
<tr>
<td>Indicator Number</td>
<td>Indicator</td>
<td>Target</td>
<td>Achieved</td>
<td>Life of Project Results</td>
<td>Percentage Achieved</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>--------------</td>
<td>----------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>3.2, year 1</td>
<td>Number of days of USG assistance provided on electronic filing and payment systems.</td>
<td>70</td>
<td>119</td>
<td>This indicator was met, reflecting extensive assistance provided on e-filing and e-payment systems for tax and non-tax revenue.</td>
<td>170%</td>
</tr>
<tr>
<td>3.1, year 2</td>
<td>Number of days of USG assistance provided on electronic filing and payment systems.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1, year 1</td>
<td>Number of people who participated in public financial management conferences.</td>
<td>200 (Year 1)</td>
<td>453</td>
<td>This indicator was eliminated in Year 2. See Year 2 indicators 4.3, 4.4 and 4.5, below.</td>
<td>N/A</td>
</tr>
<tr>
<td>4.2, year 1</td>
<td>Person hours of training completed in fiscal policy and fiscal administration.</td>
<td>72,550 (3 years)</td>
<td>18,638 (2 years)</td>
<td>Outcome reflects early closeout of project and change in preferred modality for provinces.</td>
<td>37.6%</td>
</tr>
<tr>
<td>4.1, year 2</td>
<td>Person hours of training completed in fiscal policy and fiscal administration.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.3, year 1</td>
<td>Days of USG supported technical assistance in fiscal policy or administration to counterparts.</td>
<td>2,560 (3 years)</td>
<td>3,505 (2 years)</td>
<td>Outcome reflects increased emphasis in on-the-job learning as an optimal modality.</td>
<td>137%</td>
</tr>
<tr>
<td>4.2, year 2</td>
<td>Days of USG supported technical assistance in fiscal policy or administration to counterparts.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.4, year 1</td>
<td>Number of Government officials who participated in capacity building events.</td>
<td>8,010 (3 years)</td>
<td>2,900 (2 years)</td>
<td>Outcome reflects early closeout of project and change in preferred modality for provinces.</td>
<td>36%</td>
</tr>
<tr>
<td>4.3, year 2</td>
<td>Number of Government officials who participated in capacity building events.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.5, year 1</td>
<td>Number of capacity building events facilitated.</td>
<td>93 (3 years)</td>
<td>86 (2 years)</td>
<td>Outcome reflects events across several ministries and provinces.</td>
<td>92%</td>
</tr>
<tr>
<td>4.4, year 2</td>
<td>Number of capacity building events facilitated.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.5, year 2</td>
<td>Number of tax and budget outreach events conducted.</td>
<td>20 (3 years)</td>
<td>18 (2 years)</td>
<td>Added in Year 2 to replace 3.1 above. Achievement beyond expectation at end of Year 2 reflects changed emphasis in outreach.</td>
<td>90%</td>
</tr>
</tbody>
</table>
ANNEX B. REPORTS INDEX

This annex lists all plans, progress, and technical reports and guidance produced by APFM under this contract.

APFM Plans, Progress Reports, and Event Reports

- APFM Year 1 Work Plan
- APFM Monitoring and Evaluation Plan (for Year 1)
- APFM Year 1 Annual Report
- APFM Year 2 Work Plan
- APFM Monitoring and Evaluation Plan (for Year 2)
- APFM Year 2 Annual Report
- APFM Monthly and Quarterly Progress Reports (throughout project)
- APFM Action Plans (covering the period from March 18, 2017 to June 30, 2017)
- APFM Weekly Bullets (weekly from January 27, 2016 to September 27, 2017)
- APFM Tax Compliance Roundtable (2)

APFM Technical Reports, Guidance and Study Tour Reports

Project Year 1

- Review of Tax Policy and Tax Legislation in Afghanistan
- Review of Proposed Income Tax Law Amendments
- Review of Non-Tax Revenue in Afghanistan
- Non-Tax Revenue Action Plan
- Tax Dispute Resolution Review
- Review of Gender Issues in Revenue and Budget Laws and Practices in Afghanistan
- ARD Public Outreach Review
- 2016 - 2019 ARD Communications Strategy
- ARD Taxpayer Awareness and Education Strategy
- Feasibility Study: Electronic Filing of Tax Returns (joint DFID report)
- Assessment of Tax E-Services in Afghanistan
- Action Plan for Implementing Tax E-Services in Afghanistan
• Public Asset Management in Afghanistan: A Feasibility Study

Project Year 2

• Recommendations to Strengthen Afghanistan’s International Tax Regime
• Impact Assessment of the Proposed Changes to the ITL
• Review of Legal Framework and Practice for Property Related Taxes
• Updates to the Income Tax Manual
• Tax Arrears Management (Dari and English)
• Dormant Taxpayers (Dari and English)
• Tax Evasion and Avoidance (including tax Penalties)
• Excises for Afghanistan
• Review of 28 Revenue Enhancement Options
• Incentives for Revenue Collectors
• Review of Non-Tax Revenue Fee Rates in Selected MDAs
• Non-Tax Revenue Enforcement
• Proposals for Developing Non-Tax Revenue Legislation
• Procedure Governing the Tax Dispute Resolution Board (Dari and English)
• Objections Manual (Dari and English)
• Tax Dispute Resolution Board Guide and ToRs
• Tax Dispute Resolution Study Tour to Malaysia
• Tax Accountant Procedure (Dari, Pashto, English)
• Kosovo Trip Report [SIGTAS Study Tour]
• Certified Tax Accountant Accounting Guide (Dari, Pashto, English)
• Supplementary Material for Tax Accountant Examination and Registration Guide
• Improving Budget Presentation and Monitoring
• Budget Study Tour to Malaysia
• Design of a Computerized Transport Revenue Collection System
• Open Access Policy Implementation
ANNEX C. FINANCIAL REPORT

This Annex provides the amounts expended for the APFM project.

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>APFM Financials (as of October 2017 Final Invoice)</strong></td>
<td></td>
</tr>
<tr>
<td>Work Days Ordered</td>
<td>$8,671,150.33</td>
</tr>
<tr>
<td>Other Direct Costs</td>
<td>$7,597,113.21</td>
</tr>
<tr>
<td>G&amp;A</td>
<td>$379,856.60</td>
</tr>
<tr>
<td><strong>Spent to Date (as of October 2017)</strong></td>
<td>$16,648,120.14</td>
</tr>
</tbody>
</table>