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Report No: PAD1710

PROJECT PAPER

ON A

PROPOSED AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)  
ADDITIONAL FINANCING

IN THE AMOUNT OF  
US\$ 41.125 MILLION EQUIVALENT

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

FOR A

SECOND PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT

JANUARY 27, 2016

Governance Global Practice  
SOUTH ASIA

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## CURRENCY EQUIVALENTS

Exchange Rate Effective December 31, 2015

Currency Unit AFN 68.37 = US\$1

## FISCAL YEAR

January 1 - December 31

## ABBREVIATIONS AND ACRONYMS

ARTF	Afghanistan Reconstruction Trust Fund	MOU	Memorandum of Understanding
ATP	Audit Training Program	NCB	National Competitive Bidding
eGP	Electronic Government Procurement	NPA	National Procurement Authority
HRCDD	Human Resource Capacity Development	NPC	National Procurement Committee
AF	Additional Financing	PAC	Public Accounts Committee
AOP	Administrative Office of the President	PAOD	Professional Accountants Organization Development
ARDS	Afghanistan Reconstruction and Development Services	PDO	Project Development Objective
ACCA	Association of Certified Chartered Accountants	PEFA	Public Expenditure and Financial Accountability
AFMIS	Afghanistan Financial Management Information System	PEFM	Public Expenditure and Financial Management
ARD	Afghanistan Revenue Department	PFM	Public Finance Management
FM	Financial Management	PFMR II	Second Public Financial Management Reform Project
GDP	Gross Domestic product	PFMR III	Third Public Financial Management Reform Project
CBR	Capacity Building for Results	PPU	Public Procurement Unit
HQ	Headquarters	RIMU	Reform Implementation and Management Unit
IAD	Internal Audit Department	SAO	Supreme Audit Office
ICB	International competitive bidding	SIGTAS	Standard Integrated Tax Administration System
IBRD	International Bank for Reconstruction & Development	SORT	Systematic Operations Risk-Rating Tool
ISSAI	International Standards of Supreme Audit Institutions	SPC	Special Procurements Committee
IDA	International Development Association	SY	Solar Year
IFMIS	Integrated Financial Management System	TA	Technical Assistance
IPF	Investment Project Financing	TF	Trust Fund
IT	Information Technology	TOR	Terms of Reference
MOF	Ministry of Finance	TTL	Task Team Leader

Vice President South Asia Region:	Annette Dixon
Country Director:	Robert J. Saum
Country Manager:	Stephen N. Ndegwa
Acting Senior Global Practice Director	Samia Msadek
Practice Manager/Manager:	Fily Sissoko
Task Team Leader:	Paul Welton

**AFGHANISTAN  
SECOND PUBLIC FINANCIAL MANAGEMENT REFORM PROJECT**

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**ADDITIONAL FINANCING DATA SHEET**

*Afghanistan*

*Second Public Financial Management Reform Project (PFMRP II) - Additional Financing ( P150632 )*

*SOUTH ASIA*

*GGO24*

<b>Basic Information – Parent</b>				
Parent Project ID:	P120427	Original EA Category:	C - Not Required	
Current Closing Date:	30-Jun-2017			
<b>Basic Information – Additional Financing (AF)</b>				
Project ID:	P150632	Additional Financing Type (from AUS):	Scale Up	
Regional Vice President:	Annette Dixon	Proposed EA Category:		
Country Director:	Robert J. Saum	Expected Effectiveness Date:	01-Jan-2016	
Senior Global Practice Director:	Samia Msadek	Expected Closing Date:	30-Jun-2017	
Practice Manager/Manager:	Fily Sissoko	Report No:	PAD1710	
Team Leader(s):	Paul Welton			
<b>Approval Authority</b>				
Approval Authority				
Afghanistan Reconstruction Trust Fund (ARTF) Management Committee (MC).				
Please explain				
Original approving authority was delegated to the ARTF Management Committee by the Board of Executive Directors of IDA				
<b>Borrower</b>				
Organization Name	Contact	Title	Telephone	Email
GOVERNMENT OF ISLAMIC REPUBLIC OF AFGHANISTAN	Moheb A. Jabarkhail	Coordinator for the WB portfolio	0093-790850761	moheb.jabarkhail@budgetmof.gov.af

**Project Financing Data - Parent ( Public Financial Management Reform II-P120427 ) (in USD Million)**

**Key Dates**

Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P120427	TF-10024	Effective	09-Aug-2011	09-Aug-2011	09-Aug-2011	31-Dec-2014	30-Jun-2017

**Disbursements**

Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P120427	TF-10024	Effective	USD	73.00	73.00	0.00	68.72	4.28	94.14

**Project Financing Data - Additional Financing Second Public Financial Management Reform Project (PFMRP II) - Additional Financing ( P150632 )(in USD Million)**

Loan  Grant  IDA Grant  
 Credit  Guarantee  Other

Total Project Cost: 41.125 Total Bank Financing: 41.125

Financing Gap: 0.00

<b>Financing Source – Additional Financing (AF)</b>	<b>Amount</b>
Borrower	0.00
Afghanistan Reconstruction Trust Fund	41.125
Total	41.125

**Policy Waivers**

Does the project depart from the CAS in content or in other significant respects? No

Explanation

Does the project require any policy waiver(s)? No

Explanation

<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Paul Welton	Team Leader (ADM Responsible)	Lead Financial Management Specialist	TTL and Leader of Financial Management Reform Comp	GGO24
Rahimullah Wardak	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist	Fiduciary-Procurement Lead	GGO06
Asha Narayan	Financial Management Specialist	Sr Financial Management Specialist	Fiduciary- FM Lead	GGO24
Adenike Sherifat Oyeyiola	Team Member	Sr Financial Management Specialist	Financial Management, Operations	GGO24
Asif Ali	Team Member	Senior Procurement Specialist	Leader of Procurement Reform Component	GGO06
Chau-Ching Shen	Team Member	Senior Finance Officer		WFALN
Dilip Kumar Prusty Chinari	Team Member	Finance Analyst		WFALN
Fily Sissoko	Team Member	Practice Manager	Practice Manager SAR GGP	GGO24
Juan Carlos Alvarez	Counsel	Senior Counsel		LEGES
Maged Mahmoud Hamed	Safeguards Advisor	Regional Safeguards Adviser		OPSPF
Mohammad Arif Rasuli	Safeguards Specialist	Senior Environmental Specialist		GEN06
Mohammad Ateeq Zaki	Safeguards Specialist	Consultant		GSURR
Raul Felix Junquera-Varela	Team Member	Lead Public Sector Specialist	Leader of new Revenue Mobilization Component	GGO18
Syed Waseem Abbas Kazmi	Team Member	Sr Financial Management Specialist	Leader of External Audit Sub-Component	GGO24
Wazhma Khalili Raheem	Team Member	Program Assistant		SACKB
Zohra Farooq Nooryar	Team Member	Sr Financial	Leader of PAOD and	GGO24



		Management Specialist	Internal Audit Sub-Components		
<b>Extended Team</b>					
<b>Name</b>		<b>Title</b>		<b>Location</b>	
Ali Hashim		Systems/Informatics Consultant		Washington, United States	
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
Afghanistan		Wilāyat-e Kābul			
<b>Institutional Data</b>					
Parent ( Public Financial Management Reform II-P120427 )					
<b>Practice Area (Lead)</b>					
Governance					
<b>Contributing Practice Areas</b>					
<b>Cross Cutting Topics</b>					
<input type="checkbox"/> Climate Change <input checked="" type="checkbox"/> Fragile, Conflict & Violence <input type="checkbox"/> Gender <input type="checkbox"/> Jobs <input type="checkbox"/> Public Private Partnership					
<b>Sectors / Climate Change</b>					
Sector (Maximum 5 and total % must equal 100)					
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %	
Public Administration, Law, and Justice	Public administration-Financial Sector	100			
Total		100			
<b>Themes</b>					
Theme (Maximum 5 and total % must equal 100)					
Major theme	Theme	%			

Public sector governance	Public expenditure, financial management and procurement	95		
Public sector governance	Other public sector governance	5		
Total		100		
<b>Additional Financing Second Public Financial Management Reform Project (PFMRP II) - Additional Financing ( P150632 )</b>				
<b>Practice Area (Lead)</b>				
Governance				
<b>Contributing Practice Areas</b>				
<b>Cross Cutting Topics</b>				
[ ] Climate Change				
[X] Fragile, Conflict & Violence				
[ ] Gender				
[ ] Jobs				
[ ] Public Private Partnership				
<b>Sectors / Climate Change</b>				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Public administration-Financial Sector	100		
<b>Themes</b>				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Public sector governance	Public expenditure, financial management and procurement	95		
Public sector governance	Other public sector governance	5		
Total		100		
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>				
Consultants Required ?Consulting services to be determined				

## I. INTRODUCTION

1. This project paper has been prepared for purposes of seeking approval of the Management Committee of the Afghanistan Reconstruction Trust Fund (ARTF) to provide Additional Financing (AF) in the amount of US\$41.125 million to the Government of the Islamic Republic of Afghanistan for the Second Public Financial Management Reform Project (PFMR II - P120427).
2. The proposed AF will help to finance the costs associated with scaling up successful activities and sustain some achieved results in the PFMR II while the Government tries to articulate its strategic vision for public financial management (PFM). In addition, the project paper seeks approval for the proposed restructuring of the PFMR II along the following lines: (a) addition of a new component on Revenue Mobilization to reflect the Government's priority; and (b) revision of the project's results monitoring framework.

## II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

3. An original ARTF grant amount of US\$73 million was approved for the PFMR II on June 14, 2011; the project became effective on August 9, 2011. The original closing date of the project was December 31, 2014, but was later extended to December 31, 2015 in August 2014. The current project closing date is June 30, 2017 following a further extension granted in December 2015. The original grant amount signed was US\$60 million, and this amount was later increased to US\$73 million on June 28, 2012 and the Grant Agreement was amended accordingly.
4. The PFMR II was developed to support Government's effort to implement its PFM Strategy, following its commitment to a set of PFM reforms geared toward ensuring (a) efficiency, transparency, and accountability in the use of public resources; (b) increase aid absorption capacity and securing on-budget donor aid; and (c) improved development outcomes.
5. **Project Implementation Status and Performance.** The PFMR II is well-performing and has disbursed nearly US \$68.72 million from the total commitment of about US\$73 million since it became effective (94%). There has been satisfactory progress on three of five Project Development Objective (PDO) Indicators (donor contributions to the budget, standalone procurement capacity, and absorption of consultant posts by civil servants) but only moderate progress on internal and external audit mainly due to a change in the legal framework on internal audit and a delay in mobilizing technical assistance for the external audits of line ministries. As a result, the project performance is currently rated "Moderately Satisfactory" for both PDO and Implementation Progress.

6. The allocation of funds across the various project components is shown in Table 1:

**Table 1: Original Project Funding by Component**

<i>Component</i>	<i>Amount (USD)</i>
Component 1: Procurement Reform	21,470,000
Component 2: Financial Management Reform	23,880,000
Component 3: Audit Reform and Performance	
Internal Audit	9,600,000
External Audit	15,100,000
Component 4: Reform Management	2,950,000
<b>Total</b>	<b>73,000,000</b>

**7. Rationale for AF.** The Ministry of Finance (MOF), which is also the implementing agency for PFMR II, requested AF and extension of the project closing date. The latter has been processed and the project is now due to close on June 30, 2017. It is a critical time for Government, which is trying to develop its new PFM Strategy and implement key reforms to lay the foundation for future developments of PFM in Afghanistan. As part of the ongoing dialogue on PFM, the Government had requested the Bank to develop a new project (PFMR III) to help support the implementation of key aspects of the new PFM Strategy. The AF will act as a bridge for avoiding a gap in Bank PFM support in Afghanistan and losing momentum on key results achieved under PFMR II. In keeping with this spirit of a bridge, MOF have requested that eventually, “all overlapping activities between PFMR II and those planned under PFMR III, will be carried to PFMR III once the project starts implementation”.

**8.** The AF would help to scale up some of the results achieved under the PFMR II and also ensure that some new critical activities can be incorporated into the project. It will also act as a bridge to ensure sustained support for PFM in the interim period before the proposed new project (PFMR III) becomes effective. However, more importantly, there is an expectation from the Bank that Government will undertake certain critical preparatory activities during the bridging period. The most important of these would be for Government to clarify its vision for PFM going forward in the form of a credible PFM Strategy and associated implementation plan. The funding bridge would also enable Government to clarify and consolidate the role and the direction of the National Procurement Authority (NPA) and formulate plans for it to become an autonomous agency. Government would also need to show commitment to adoption of Capacity Building for Results (CBR) programs, (and conversely a reduction on reliance on national consultants) in the PFM arena, during the bridging period. It is stressed that the scope, nature, and funding of PFMR III would be contingent on Government making progress in these areas. The proposed PFMR III is likely to be results based with inclusion of disbursement linked indicators.

**9.** Many activities proposed are existing and recurring in support of MOF and the Supreme Audit Office (SAO), which are critical to both attaining good PFM outcomes in the period of tightening fiscal space. The AF will give additional resources for completion of existing activities under the audit sub-component. This is also the case with the private sector accounting

organization sub-component that will be able to make significant progress during the extension period in anticipation of imminent passing of the draft Accountancy Law. This Law will establish a regulatory basis for the private sector accounting and auditing profession in Afghanistan and enable sub-component activities, which are currently on hold, to progress. Assistance to the Afghanistan Revenue Department (ARD), through a new component on revenue mobilization, is proposed to improve revenue collection.

**10.** The functions of procurement facilitation, procurement oversight, and training have, by Presidential Decree, been transferred to NPA within AOP. These will continue to be supported, but new activities pertaining to institutional development have also been added. In discussions with Government, the Bank has stressed a number of points: (a) the eventual conversion of NPA into an body independent of the Administrative Office of the President (AOP), (b) the need to ensure sustainability of the institution without abundant technical assistance support, and (c) special attention to the removal of any conflict of interest that may have arisen due the migration of the Public Procurement Unit (PPU) to the AOP in the areas of complaints handling and debarments.

**11.** In discussions, what has come out very clearly, is that the Government agrees that the NPA does not belong in the AOP in the long term. As a first step, the original General Directorate for National Procurement has been renamed as the National Procurement Authority, and in departure from its original mandate, the NPA will not carry out any direct procurement but will continue to facilitate procurement in a successor role to the ARDS, and provide clearances to contracts as the NPC. The President has decreed an independent panel, consisting of private sector members and civil society organizations to deal with complaints, and the NPA is actively considering the creation of a system of accreditation that will provide sustainability to procurement capacity. While it is premature to expect the exit of the NPA from the AOP during the period of the additional financing, the Bank will engage in helping NPA come up with a strategy to achieve this and in the follow on PFMR III, put down measurable indicators towards this goal. The NPA is also working with the CBR team to eventually move the professional positions to the CBR program. The CBR program has been designed to assist the government in improving the capacity and performance of select line ministries in carrying out their mandates and delivering services to the Afghan people. This is to be achieved through the implementation of specific capacity and institution building programs, which include systematic monitoring of and reporting on results.

**12.** In summary, the existing components will continue and will absorb most of the AF. The project will continue to seek to support the Government's PFM Strategy as it continues to evolve and will place special focus on maintaining levels of fiduciary assurance and oversight during the transition period. The new component on Revenue Mobilization, which is at the top of Government's priorities will require \$3.85m of the proposed \$41.125 million AF. Both the original PFMR II and the proposed AF are consistently supportive of the Interim Strategy Note for Afghanistan. The rationale for additional financing meets the criteria in Investment Project Financing (IPF) policy given proposed restructuring and significant new activities, including a new component.

### III. PROPOSED CHANGES

**13. Project Development Objective.** The original PDO was stated as follows:

...to strengthen public financial management through effective procurement, treasury, and audit structures and systems in line with sound financial management standards of monitoring, reporting and control.

It is proposed to change the PDO to make it more specific and measurable by linking it to the PFM Strategy. The new PDO will thus become:

...to further strengthen the efficiency and effectiveness of Afghanistan's procurement, treasury, and audit systems.

**14. Results Framework and Indicators.** Some revisions to the results framework are proposed in accordance with the proposed changes to activities and components under the AF. Amendments have also been introduced to reflect organizational changes in government. The most notable being that NPA is included as the successor organization to ARDS/PPU. There are also proposed revisions to some of the targets in the AF period, and the external audit and internal audit PDO indicators have been revised to eliminate the reference to the Public Expenditure and Financial Accountability (PEFA) methodology. Instead the wording of the indicators will focus on the quality and scope of audit coverage that is in the spirit of the original PDO indicators.

**15.** A new more relevant PDO indicator relating to the Procurement Reform component has been introduced which replaces the existing indicator that had become irrelevant and difficult to measure. A further PDO indicator has been introduced on the theme of accountability and transparency in publishing procurement decisions.

**16.** The PDO indicator pertaining to increased number of functions carried out by regular ministry staff has been sharpened to focus on the development and implementation of plans to transit posts to programs such as CBR.

**17. Citizen's engagement and Gender issues** are reflected in the new results framework. Activities to prepare for increasing public participation in audit will be funded under the Audit Reform Component (specifically sub-component 3.10).

**18.** The revised results framework is set out in Annex 1.

**19. Revised Cost Estimate.** The World Bank task team prepared this Project Paper following consultations with the MOF, the NPA at the AOP, and SAO. A detailed description of the modified and new project activities is included in Annex 2. The team also made a detailed assessment of the proposed AF required during a scoping mission held in July 2015. A detailed cost estimate is provided in Annex 3(a) and 3(b). A disbursement plan showing how Grant funds will be disbursed over the period is included in Annex 4.

**20. Other Changes:** An additional component pertaining to Revenue Mobilization will be added.

**21. Lesson Learned:** Those areas which have been most successful, not just under PFMR II but in previous projects will receive additional investment as part of the scaling up. For example:

- a) The Afghanistan Integrated Management Information System AFMIS is a recognized success story and system developments will continue to be funded in the AF period with a view to achieving enhanced systems performance and recurrent cost savings.
- b) Since 2002, the World Bank has engaged in a long term strategy for building the human resource capacity of the Treasury which has resulted in a number of key achievements over the years. This longer-term view of capacity development has, and continues to, facilitate the strengthening of overall Treasury operations. The current strategy of strengthening skills and capacity of Treasury civil servants at the center and in provinces is centered around a core rolling training and capacity building plan for all staff to include on – the job training, mentoring and the on- going Treasury internship program as well as a more recent education reimbursement scheme. These successes, will continue to be supported under the AF period.

**22.** Other lessons learned include the need for greater interlinkages between the PFMR II project and other ARTF and Bank activities. Great care has therefore been taken to ensure that the project design dovetails with other initiatives such as the ARTF Incentive Program and CBR. The incorporation of a new component on Revenue Mobilization is also an example of this Bank – wide programmatic approach to PFM.

**23.** Lessons learned will continue to be documented during the AF period for inclusion in the eventual Implementation Completion Report.

**24.** A summary of the proposed changes is contained in the following datasheet.

<b>Summary of Proposed Changes</b>	
Additional Financing of \$41.125 million is proposed in order to scale up some of the results achieved under the PFMR II and also ensure that some new critical activities can be incorporated into the project. In addition, the project paper seeks approval for the proposed restructuring of the PFMR II along the following lines: (a) addition of a new component on Revenue Mobilization to reflect the Government’s priority; and (b) revision of the project’s results monitoring framework.	
Change in Implementing Agency	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Project's Development Objectives	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]
Change in Results Framework	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ]
Change in Safeguard Policies Triggered	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change of EA category	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Other Changes to Safeguards	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Legal Covenants	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]
Change in Loan Closing Date(s)	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ]

Cancellations Proposed	Yes [ ] No [ X ]
Change in Disbursement Arrangements	Yes [ ] No [ X ]
Reallocation between Disbursement Categories	Yes [ ] No [ X ]
Change in Disbursement Estimates	Yes [ X ] No [ ]
Change to Components and Cost	Yes [ X ] No [ ]
Change in Institutional Arrangements	Yes [ X ] No [ ]
Change in Financial Management	Yes [ ] No [ X ]
Change in Procurement	Yes [ ] No [ X ]
Change in Implementation Schedule	Yes [ ] No [ X ]
Other Change(s)	Yes [ ] No [ X ]

**Development Objective/Results**

**Project's Development Objectives**

Original PDO

The proposed PDO is to strengthen public financial management through effective procurement, treasury and audit structures and systems in line with sound financial management standards of monitoring, reporting and control.

**Change in Project's Development Objectives**

Explanation:

Project Development Objective is vague and is difficult to measure. It is therefore being revised.

Proposed New PDO - Additional Financing (AF)

To further strengthen the efficiency and effectiveness of Afghanistan's procurement, treasury, and audit systems.

**Change in Results Framework**

Explanation:

Project Development Outcome Indicators have lost some relevance and need to be revised. Minor revisions to the wording within the results framework are also proposed. For example amendments have been introduced to reflect organizational changes in government. The most notable being that the NPA is included as successor organization to Afghanistan Reconstruction and Development Services (ARDS) and Procurement Policy Unit (PPU). Changes have also been made to the results framework to ensure citizen engagement and gender issues are adequately reflected

**Compliance**

**Covenants - Additional Financing ( Second Public Financial Management Reform Project (PFMRP II) - Additional Financing - P150632 )**

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
				<input type="checkbox"/>		



<b>Conditions</b>										
<b>Source Of Fund</b>			<b>Name</b>				<b>Type</b>			
<b>Description of Condition</b>										
<b>Risk</b>										
<b>Risk Category</b>								<b>Rating (H, S, M, L)</b>		
1. Political and Governance								Substantial		
2. Macroeconomic								Substantial		
3. Sector Strategies and Policies								Substantial		
4. Technical Design of Project or Program								Moderate		
5. Institutional Capacity for Implementation and Sustainability								Substantial		
6. Fiduciary								Substantial		
7. Environment and Social								Low		
8. Stakeholders								Moderate		
9. Other								High		
OVERALL								Substantial		
<b>Finance</b>										
<b>Loan Closing Date - Additional Financing ( Second Public Financial Management Reform Project (PFMRP II) - Additional Financing - P150632 )</b>										
<b>Source of Funds</b>						<b>Proposed Additional Financing Loan Closing Date</b>				
Afghanistan Reconstruction Trust Fund						30-Jun-2017				
<b>Change in Disbursement Estimates (including all sources of Financing)</b>										
Explanation:										
The disbursement profile of the additional financing has been incorporated.										
<b>Expected Disbursements (in USD Million)(including all Sources of Financing)</b>										
Fiscal Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual	15625.00	25500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	15625.00	41125.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

<b>Allocations - Additional Financing ( Second Public Financial Management Reform Project (PFMRP II) - Additional Financing - P150632 )</b>				
Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement %(Type Total)
			Proposed	Proposed
ARTF			41.125	100.00
		<b>Total:</b>	41.125	
<b>Components</b>				
<b>Change to Components and Cost</b>				
Explanation:				
The AF would help to scale up some of the results achieved under the PFMR II and also ensure that some new critical activities can be incorporated into the project.				
Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action
Reform Management	Reform Management	2.95	3.72	Revised
Procurement Reform	Procurement Reform	21.47	32.46	Revised
Audit Reform and Performance	Audit Reform and Performance	24.70	34.27	Revised
Financial Management Reform	Financial Management Reform	23.88	39.84	Revised
	Revenue Mobilization	0.00	3.84	New
	<b>Total:</b>	73.00	114.13	
<b>Other Change(s)</b>				
Implementing Agency Name	Type			Action
<b>Change in Institutional Arrangements</b>				
Explanation:				
The General Directorate of National Procurement (GDNP), subsequently renamed as the National Procurement Authority (NPA) was created through a Presidential Decree in 2015 in order to provide services in the field of national procurement as a centralized model to the Government of Afghanistan. In a later Decree, the President merged the Procurement Policy Unit (PPU), Afghanistan Reconstruction and Development Services (ARDS) and Special Procurements Commission (SPC) into the NPA. In taking this decision, no prior consultations were carried out by the Administrative Office of the President. The Bank, after internal consultation, and reference to the Ministry of Finance, determined that the NPA, as successor organization to PPU and ARDS, was eligible to be financed under the PFMR II and its activities were a				

logical continuation towards the achievement of the Project Development Objective (PDO) of PFMR II.

There will be a new component on Revenue Mobilization which falls under Afghanistan Revenue Department which is part of MOF.

The implementation arrangements of the original project will be maintained under the Additional Financing. The existing implementation arrangements include a Project Steering Committee and a Project Coordination Unit under RIMU.NPA has joined the Steering Committee as the successor organization to ARDS/PPU. Afghanistan Revenue Department will be represented in the Steering Committee.

## Appraisal Summary

### Economic and Financial Analysis

Explanation:

Afghanistan, is at a crossroads in its development, with economic growth declining and poverty incidence stubbornly high. Significant economic and social progress was achieved from a very low base between 2003 and 2012. Economic growth averaged 9.4 percent per year and key social and infrastructure indicators including school enrollment, life expectancy, and access to water improved markedly. However, poverty incidence nationwide remained stagnant. An unprecedented political, security, and economic transition since 2012 has led to a marked decline in economic performance and threatens the foundations of stability and progress in Afghanistan. Economic growth fell sharply to 1.5 percent in 2014 and a fiscal crisis unfolded with declining revenues leading to depleted cash reserves and accumulating arrears. As such, Afghanistan faces tremendous development challenges. GDP per-capita is among the lowest in the world, poverty is deep and widespread, and social indicators are still at very low levels.

Despite these challenges, with assistance of IDA and other donors, the government has made significant progress in establishing a functioning PFM system under the direction of MOF, whose leadership has been the single, most crucial enabling factor for the implementation of government budgeting. The legal framework underpinning PFM (Public Finance and Expenditure Management Law and Public Procurement Law) has been established and the government's PFM performance is generally portrayed as one which public finances are, by and large, used for their intended purposes as authorized by the budget which is processed with transparency and where the fiscal aggregates are well controlled. Effective PFM remains of key importance to Government, given the overriding current need to prioritize interventions within tight budget constraints. The project will continue to help the government maintain effective PFM and especially efficient expenditure management and oversight during the Additional Financing period leading to greater fiduciary assurance.

In terms of revenue too, the Bank is responding to PFM needs. Afghanistan is facing significant fiscal vulnerabilities. After a decade of strong domestic revenue growth, revenues fell to 8.5 percent of GDP in 2014 from a peak of 11.6 percent in 2011 while expenditures have been rising and aid flows have been declining. Improving revenue collection is one of Afghanistan's most important economic policy challenges today and in the medium-term and an important milestone towards greater self-reliance. Revenue mobilization has also been recognized as a top-priority for the new PFM Strategy. In spite of its relevance for revenue mobilization, the Afghanistan Revenue Department (ARD) has so far been relatively under-served with international assistance and is lagging behind in terms of progress in technical capacity, institutional strength and modernization. A new component on Revenue Mobilization will seek to help in this area.

Since the proposed operation is a technical assistance project, no economic analysis has been carried out.

The project is expected to yield high benefits in that: (a) line ministries are able to execute budget and deliver services efficiently; (b) fast track capacity building of civil servants to operate the PFM systems contributes to sustainability of PFM; and (c) strengthened internal and external audit function and operation would contribute to good governance. Cumulatively, these benefits would lead to greater confidence on the part of the public, and donors, that Government is responsive to felt needs and that the apparatus of government is operating efficiently and transparently. It would then support the strategy of increasing the transfer of donor resources to the government system. As the project is focused on changing the institutional environment in a high risk country, establishing a trend is considered more important than reaching pre-determined targets.

## **Technical Analysis**

### **Explanation:**

#### **Procurement reform component**

This component comprised three sub components in the original project paper namely 1.1 Procurement facilitation 1.2 Capacity Building in Line Ministries and Provinces and 1.3 Institutional Development. Under the Additional Financing period, sub-component 1.3 has now been subsumed into 1.1 to form a new sub-component named "Support to NPA". Many of the existing activities supported previously will continue, however, the AF will also provide assistance in the establishment of NPA, its structures, systems and processes and procedures. It will include \$1.855 million for remuneration of contracted procurement specialists and support staff, \$1.0 million for the procurement of Goods including vehicles, office furniture and equipment and IT equipment, \$900,000 for the preparation of a eProcurement readiness assessment and implementation strategy and roll out of early activities, \$200,000 for the refurbishment of existing facilities of the NPA at the AOP, and \$750,000 for governance and anti-corruption activities. The Additional Financing will also fund legal support for the review and amendment of the Afghan Procurement Law as a result of the Presidential decree.

#### **Financial Management reform component.**

Changes are also proposed to the Financial Management reform component. The Treasury Operations and systems development sub-component will include a new activity : that of funding the first steps in the upgrade of the Afghanistan Financial Management Information System (AFMIS). One of the most significant achievements of MOF is the AFMIS. This stable and effective application was established in Treasury in 2002 and extends to each of the 34 Provinces in Afghanistan. In the short term, the Government wishes to upgrade/migrate the AFMIS immediately to Web based-version 7.0. This is in part due to anticipated savings on day to day recurrent costs and enhanced systems performance. The Bank is commissioning a leading treasury systems expert to evaluate the costs and benefits of this migration and the suitability of the proposed web-based upgrade for Afghanistan.

#### **Audit Reform and Performance component.**

A new sub-component has been introduced under the Audit Reform and Performance component. The Supreme Audit Office (SAO) has identified some priority areas for the new project that include developing skills into emerging areas of audit like Information System Audit, State Owned Enterprise Audit and Performance Audit, increasing public participation in audit, implementing an audit management system, continuous professional development of staff and establishing a state of the art Audit Academy. These priorities have also been communicated to MoF for inclusion in the new PFM Strategy. SAO has also initiated an assessment of its performance using the Supreme Audit Institution - Performance Measurement Framework which would also identify some areas of improvement. Most of these initiatives would need some preparatory work which would be funded using AF under the new sub-component.

#### **Revenue Mobilization**

The Government has committed to ambitious targets for tax collection in various donor-finance, policy-

based programs. Without additional assistance, especially over the short term, the achievement of these targets will be highly unlikely. The arising fiscal vulnerabilities also have the potential to undermine the expected outcomes and achievements of other areas within the new PFM Strategy by diverting away focus on transparency and accountability initiatives. Given the importance of Revenue Mobilization for good PFM, and the fact that it is the need of the hour, ARD has submitted a proposal to the Bank which has been added as a new component to PFMR II.

**Social Analysis**

Explanation:

No environmental and social impacts are envisaged under any component of the AF-PFMR II project.

**Environmental Analysis**

Explanation:

No environmental and social impacts are envisaged under any component of the AF-PFMR II project.

**Risk**

Explanation:

The overall risk rating has been increased to “substantial” given the country risk, the difficulties mobilizing qualified consultants in the current insecure environment in Afghanistan and the ongoing challenge of sustaining achievements.

**IV. APPRAISAL SUMMARY**

**25.** The implementation arrangements of the original project will be maintained under the AF. The MOF will remain the implementing agency. The existing implementation arrangements include a Project Steering Committee and a Project Coordination Unit under RIMU. The NPA has joined the Steering Committee as the successor organization to ARDS/PPU. The Afghanistan Revenue Department of MOF, which will be responsible for the new component on Revenue Mobilization, will also be represented.

**26. Overall fiduciary assessment.** The proposed AF will be implemented by the MOF as was done for the original financing. The MoF has been implementing the original project for four years and has the experience and capacity to implement the activities under the AF. The arrangements have been re-assessed and found to be satisfactory. Based on the current assessment, the overall fiduciary risk rating is “Substantial”.

**27. Procurement.** The proposed arrangements under AF will be implemented by RIMU, as done for the original financing over the past four years. The RIMU was established in MOF under the original project. However, despite having gained good experience, RIMU will need to hire additional procurement staff to cope with the additional workload under AF and facilitate procurement of small values contracts of goods for all the other comments, excluding NPA under the AF. Three national procurement officers will be recruited to help the procurement analyst to facilitate procurement of small value goods for RIMU, Treasury, Internal Audit, and SAO.

**28.** The procurement of high value and of complex nature contracts (ICB, NCB) and selection of consultancy firm will be conducted through NPA by all the units. To cope with the work of the AF, NPA will hire a senior procurement specialist and a procurement officer who will be solely responsible for procurement of goods and the consultant under the procurement reform component of the project.

**29.** The relevant unit will be responsible for preparation of specification and TORs for the goods to be procured and consultants to be hired. The relevant unit will also be responsible for evaluation of bids and technical proposals. The NPA and/or RIMU procurement staff, as the case may be, will provide guidance from the procurement perspective. The RIMU in consultation and coordination will revise the existing procurement manual and incorporate roles and responsibility of each unit and individuals.

**30.** The procurement risk for the original project was rated “Moderate”; however the procurement risk for AF will be “High” considering that the contract of the procurement facilitating consultant has expired and it will take at least four months to bring a new firm onboard. With the new firm in place, the capacity of NPA will be reassessed and the procurement risk rating will be agreed accordingly.

**31.** Procurement under the proposed AF will be carried out in accordance with the World Bank’s Guidelines: Procurement of Goods, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011 and revised July 2014 (the Procurement Guidelines); Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011 and revised July 2014 (the Consultant Guidelines); and the provisions stipulated in the Financing Agreement.

**32.** In case of conflict/contradiction between the Bank’s procurement procedures and any national rules and regulations, the Bank’s procurement procedures will take precedence according to Article 4(2) of the Procurement Law, October 7, 2015 of the Government of Afghanistan; and the IDA Procurement/Consultant Guidelines shall prevail. The general description of various procurements under different expenditure categories are described in the procurement plan. A detailed procurement plan has been prepared for the proposed AF.

**33.** A 12-month procurement plan has been prepared for the AF. The procurement plan will be updated annually or as required. Currently, the threshold for entities identified as at substantial risk will apply for the prior review of the contracts under the AF project. However, the capacity of the RIMU and NPA procurement unit will be periodically assessed. This threshold will be reviewed and updated accordingly.

**34. Financial management.** The financial management (FM) arrangements and performance under the current project have been re-assessed and found to be “Satisfactory”. The FM risk rating is “Substantial” after considering the mitigating measures in place.

**35.** The FM staffing is satisfactory, with no need for additional FM staff at this stage. Staffing will be reviewed periodically, and any additional resources will be considered on an as need basis.

All the individual implementing units have adequate FM staff, and the RIMU FM staff member continues to play a coordination role in addition to carrying out FM tasks within RIMU. The FM staff of PPU have been absorbed under the NPA and will carry out the FM tasks within NPA for the project.

**36.** The individual units will continue to maintain relevant books of records for its transactions, while RIMU will maintain a consolidated bank book for the project. The RIMU will also ensure overall reconciliation of project records with AFMIS records and the bank statements. Consolidated quarterly Unaudited Interim Financial Reports (UIFRs) for the project are prepared by RIMU. The quarterly UIFRs are being submitted on a timely basis and are acceptable to the Bank.

**37.** Current disbursement arrangements under the original financing will continue for the additional financing, and the additional funding of \$41.125 million from ARTF will be added to the one single disbursement category to finance the same types of expenditures. The single designated account currently in operation will continue to be used under the AF. All implementing units use the same designated account, but replenishment requests will be made periodically to ensure sufficient liquidity. This is critical especially under this project where the designated account is shared between different implementing units. The RIMU will monitor the designated account funds availability and facilitate periodic submission of replenishment applications. Funds flowing to the provinces will continue to follow the *mustofiat* channel. Responsibility for monitoring, accounting, and timely acquittal of provincial advances will rest with the individual implementing units while RIMU will monitor at a project level.

**38.** The internal controls are reasonably satisfactory. There are some minor reconciliation issues in the UIFRS that the Bank is closely working with RIMU to address. There is improvement in the timeliness of acquittal of provincial advances, but this is an area that requires constant monitoring. Internal audit for the project will be carried out by the MOF IAD.

**39.** The annual project audit is carried out by the SAO with technical assistance from an international audit firm; however, the scope of the audit excludes SAO due to conflict of interest. An audit of SAO transactions from the inception of the project until end of FY1392 (20 March 2014) was carried out by independent auditors engaged by SAO. A similar audit engagement will be entered into by SAO for the period covering FY1393 till the end of the project. There are no overdue audit reports, no overdue UIFRs, and no ineligible expenditures under ongoing or closed projects implemented by MoF.

**40. Environmental Safeguards.** No environmental and social impacts are envisaged under any component of the AF-PFMR II project. The project solely provides technical assistance, capacity building, and institutional reform services.

**41.** Although no safeguards policy of the Bank is being triggered, it is necessary to apply relevant Citizen Engagement tools such as the Grievance Redress Mechanism (see section V), during the implementation of the AF project. Therefore, the borrower shall introduce a Social Safeguards Focal Point from the existent project staff for the implementation of the required Citizen Engagement activities and coordination with the Bank's Social Safeguards Team. It is essential

that the safeguards focal person get sufficient training on Citizen Engagement tools and its application.

**42. Project Risks.** The team has increased the overall risk rating to “substantial” given the country risk, the difficulties mobilizing qualified consultants in the current insecure environment in Afghanistan, and the ongoing challenge of sustaining achievements. An updated Systematic Operations Risk-Rating Tool (SORT) is presented in Annex 4 together with the key risks.

**43. Pace of project implementation during AF period.** Implementation Support will be enhanced during the AF period. To ensure the implementation pace is maintained during the AF period monthly meetings will be held with the client to ensure that activities remains on track and bottlenecks to potential disbursement are addressed on a timely basis. A disbursement plan has been produced and is attached in Annex 4 and the Bank will monitor performance against this plan.

## V. WORLD BANK GRIEVANCE REDRESS

**44.** Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).<sup>1</sup>

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<sup>1</sup> Information on how to submit complaints to the World Bank’s corporate Grievance Redress Service is accessible at <http://www.worldbank.org/GRS>. Information on how to submit complaints to the World Bank Inspection Panel is accessible at [www.inspectionpanel.org](http://www.inspectionpanel.org).



## ANNEX 1: REVISED RESULTS FRAMEWORK AND MONITORING INDICATORS

Project Name: Second Public Financial Management Reform Project (PFMR II) - Additional Financing (P150632)	Project Stage: Additional Financing
Region: SOUTH ASIA	Lending Instrument: Investment Project Financing
Parent Project ID: P120427	Parent Project Name: Public Financial Management Reform II (P120427)

### Project Development Objectives

Original Project Development Objective - Parent:

The proposed PDO is to strengthen public financial management through effective procurement, treasury and audit structures and systems in line with sound financial management standards of monitoring, reporting and control.

Proposed Project Development Objective - Additional Financing (AF):

To further strengthen the efficiency and effectiveness of Afghanistan's procurement, treasury, and audit systems.

### Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

### Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
New	Increased number of functions carried out by regular ministry staff that were previously carried out by contracted staff.	<input type="checkbox"/>	Text	Value	Plans currently work in progress.	Plans currently work in progress	Plan in place for FY17 to modify Tashkeel to include functions that are currently undertaken by national consultants. Equivalent FY16 Plan implemented.

				Date	01-Dec-2015		30-Jun-2017
				Comment			Plan to include Capacity Building for Results posts for MOF Treasury and NPA.
Revised	Donors shift their off-budget official development assistance to Afghanistan to on-budget.	<input type="checkbox"/>	Percentage	Value	0.00	62.00	20.00
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment	Baseline \$ 1.8 billion on budget.	Achieved	At least 20% of development assistance is on-budget
New	The Supreme Audit Office commences development of a mechanism for citizen participation in audit.	<input type="checkbox"/>	Text	Value	No citizen participation in audit	No citizen participation in audit	Preparation for citizen participation in audit during FY16 leading to development of mechanism for citizen participation in audits and issuance of policy governing citizen participation in public oversight of public funds by June 30 2017.
				Date	01-Dec-2015	01-Dec-2015	30-Jun-2017

				Comment			
New	Establish a database of, and publicly disclose, National Procurement Committee (NPC) decisions.	<input type="checkbox"/>	Days	Value	2.00	2.00	1.00
				Date	01-Dec-2015	01-Dec-2015	30-Jun-2017
				Comment	Baseline = working days Name of contract and amount to be published. For security reasons detailed information will be made available to bidders only on request.	Current = working days	Target = working days Name of contract and amount to be published. For security reasons detailed information will be made available to bidders only on request.
New	Reduction in number of days taken by the National Procurement Committee (NPC) to dispose of cases presented to it.	<input type="checkbox"/>	Days	Value	10.00	10.00	7.00
				Date	31-Oct-2015	01-Dec-2015	30-Jun-2017
				Comment	NPC is a new body. Consistent performance in time taken to dispose of cases needs to be achieved. Disposal means "approve", "reject" or "ask for further clarification or information"		NPC is a new body. Consistent performance in time taken to dispose of cases needs to be achieved. Disposal means "approve", "reject" or "ask for further clarification or information"

Revised	Improved coverage and quality of internal audit.	<input type="checkbox"/>	Number	Value	49.00	50.00	50.00
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment	Internal audit covers less than 50% of both revenue and expenditure. Audit is not done to recognized standard and very few audit recommendations are implemented. Unit of measure = %	50% coverage of expenditure and 15% coverage of revenue according to current mandate of IAD MOF.	MOF IAD audits 50% of budgeted expenditure & (for entities which collect) revenue 25%, within its mandate, as per recognized standards such as International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors. Unit of Measure = %
Revised	Improved coverage and quality of external audit.	<input type="checkbox"/>	Number	Value	49.00	74.00	75.00
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment	Audit coverage of expenditure under 50% and audit not done according to the recognized standards. Limited actions by the	70% SAO on its own. 3.7% with contracted firm. Total 74%. Fiscal year 1393. Fully applies ISSAI level III and working on ISSAI level IV.	SAO audits at least 75% of annual government expenditure according to recognized standards such as ISSAI. Unit

					management on audit recommendations. Unit of measure = percentage		of measure = percentage
Marked for Deletion	% of of procurement done by LM using stand-alone procurment	<input type="checkbox"/>	Percentage	Value	0.00	48.00	50.00
				Date	01-Sep-2011	21-Dec-2014	31-Dec-2015
				Comment			
Marked for Deletion	Number of functions carried out by regular ministry staff	<input type="checkbox"/>	Number	Value	0.00	17.00	20.00
				Date	01-Sep-2011	21-Dec-2014	31-Dec-2015
				Comment			

### Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Marked for Deletion	No of Procurement units of LMs and provincial offices restructured	<input type="checkbox"/>	Number	Value	7.00	47.00	61.00
				Date	01-Sep-2011	30-Jun-2015	31-Dec-2015
				Comment			
New	Legal framework, legal documentation and disclosure policy completed and Appeal and Review Committee and the dispute resolution system is functioning	<input type="checkbox"/>	Text	Value	Legal framework in place but not operational	During this period, NPA has restructured the Administrative Review Committee; the new committee will be a semi-independent committee with participation of members from private sector and Ministry of	Semi-annual report on Appeal and Review Committee activity. Debarment notices, if any publicly disclosed.

						Commerce.	
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment			
Revised	Number of line ministry and mustofiats procurement staff completing duty-specific procurement training.	<input type="checkbox"/>	Number	Value	0.00	711.00	7800.00
				Date	01-Sep-2011	30-Jun-2015	30-Jun-2017
				Comment		6000+ trained in life of project. RIMU report 711 additional staff trained during the last reporting period.	1800 more procurement staff of line ministries and mustofiats trained between 1 January 2016 and June 30 2017. Monitoring Reports, detailing performance against target to be split by gender in order that baseline can be established.
Revised	Numbers of human resource management staff completing duty-specific training in their respective specialties	<input type="checkbox"/>	Number	Value	0.00	1020.00	750.00
				Date	01-Sep-2011	21-Dec-2014	30-Jun-2017
				Comment		1020 is figure reported in Solar year 1393	Monitoring Reports, detailing performance against target to be split by gender in order that baseline can

							be established.
Revised	LM PFM assessment	<input type="checkbox"/>	Text	Value	2 assessments underway	14	14 assessments completed
				Date	01-Sep-2011	30-Jun-2015	31-Dec-2015
				Comment			Completed
Revised	Number of internal audits done to acceptable standards.	<input type="checkbox"/>	Text	Value	4	34	34
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment		Achieved.	
Revised	Number of external audits verified as done to international auditing standards	<input type="checkbox"/>	Text	Value	Just WB grant audits	All World Bank Audits. Four compliance audits completed in 1393 and five underway this year.	All WB grant audits and 9 compliance audits
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment			
Revised	Timely dissemination of in-year budget execution reports.	<input type="checkbox"/>	Text	Value	30 days from month end	15 days	14 days
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment			
Revised	AFMIS upgrade to web based version evaluated	<input type="checkbox"/>	Text	Value	Web based version of AFMIS not implemented	Assessment of suitability of web based version of AFMIS underway	Implementation of recommendations of the assessment completed.
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment			
Revised	Legal framework and structures for development and regulation	<input type="checkbox"/>	Text	Value	no legal or oversight	The draft law is pending with	Training of accountants

	of an accounting profession drafted and training plans for professional accountants established				framework	Ministry of Justice for approval.	underway. Monitoring Reports, detailing performance against target to be split by gender in order that baseline can be established.
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment			
Revised	Timeliness and quality of annual audited financial statements submitted to the legislature and donors	<input type="checkbox"/>	Text	Value	Audited Qatia statements submitted to National Assembly within 6 months of the close of the financial year but they do not include cash position of controlled entities, third party payments and information about assets & liabilities	1393 Qatia submitted on time. Cash based financial statements prepared for 1393.	Qatia and Annual Cash Based Financial Statements and info on liabilities, assets and cash position submitted to the legislature within 6 months of the close of the financial year.
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment			
Revised	Disaster recovery plan and	<input type="checkbox"/>	Text	Value	no plan in	Revised work	Disaster



	testing				place	plan has been submitted.	recovery plan tested and in place /implemented.
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment			
Revised	Number of internal audit staff trained and accredited	<input type="checkbox"/>	Number	Value	112.00	512.00	546.00
				Date	01-Sep-2011	01-Oct-2015	30-Jun-2017
				Comment			Monitoring Reports, detailing performance against target to be split by gender in order that baseline can be established.

## **ANNEX 2: DETAILED DESCRIPTION OF MODIFIED AND NEW PROJECT ACTIVITIES**

### **Component 1: Procurement Reform**

**(Original, US\$21.470 million; AF period proposal, US\$10.995 million)**

The General Directorate of National Procurement (GDNP), subsequently renamed as the National Procurement Authority (NPA) was created through a Presidential Decree in 2015 in order to provide services in the field of national procurement as a centralized model to the Government of Afghanistan. In a later Decree, the President merged the Procurement Policy Unit (PPU), Afghanistan Reconstruction and Development Services (ARDS) and Special Procurements Commission (SPC) into the NPA. In taking this decision, no prior consultations were carried out by the Administrative Office of the President. The Bank, after internal consultation, and reference to the Ministry of Finance, determined that the NPA, as successor organization to PPU and ARDS, was eligible to be financed under the PFMR II and its activities were a logical continuation towards the achievement of the PDO of PFMR II. The Bank's decision was also based on the recognition that placing public procurement in the AOP, while not in keeping with current trends in decentralized procurement, in the short to medium term will provide procurement reform the high level support it needs to be able to progress effectively. The role of this new organization within the Administrative Office of the President (AOP) is:

- To act as the central legal, regulatory, policy and organization responsible for national procurement in a transparent and accountable manner, that works towards eliminating corruption in the use of public funds across all line ministries.
- Re-engineer procurement processes that will enable the Government of Afghanistan to make savings and efficiencies in terms of both time and cost.
- Assess Afghanistan's readiness for and implementation of Electronic Government Procurement (eGP) as part of the government's vision and efforts toward e-governance.

During 2015, the NPA has completed the transition of the PPU and ARDS into the NPA and, going forward, is seeking the Bank's assistance in the consolidation of the changes, development of NPA as an institution, and the implementation of a second generation of procurement reforms aimed at measurably efficient and transparent procurement performance across the spectrum of public procurement in Afghanistan. It is important to recognize that the move of the procurement organizations to the AOP has not resulted in any new thresholds or procedures.

The line ministries will continue to conduct all procurement activities as previously. It is important to clarify here that the NPA does not intend to carry out and procurement on behalf of the line ministries and procuring agencies. The National Procurement Commission (NPC), as successor to the SPC, has been holding regular weekly meetings that review high-value contracts that were previously within the purview of the SPC. In order to effectively prepare NPC members for meetings, the Bank has agreed to fund dedicated staff for this purpose. The Bank will remain closely engaged on the progress on this issue.

One of the key stated reasons behind the Presidential decision to move the regulation of the public procurement function into the AOP was to be able to deal with widespread allegations of fraud and corruption in public procurement. During the AF period, this activity will, in particular, focus on: (a) integrity-related controls in procurement policies and procedures; (b) national oversight arrangements such as compliance testing, effectiveness of investigations into procurement-related fraud and corruption, use of red flag methodology in procurement audits and adequate follow-up, forensic audits, collaborations among oversight institutions, and procurement complaint handling; (c) background checks, competitive hiring, and training of procurement staff in due diligence and red flag detection; (d) vulnerability in the procurement management information system; (e) incorporating integrity into the national procurement risk assessment and action plan; and (f) options for promoting transparency and accountability through proactive disclosure of procurement and contract information, social audits, training of journalists.

**Sub-component: 1.1 Support to the NPA**

**(Original, US\$8.6 million under sub-component 1.1 and US\$4.04 million under sub-component 1.3; AF period proposal US\$9.715 million)**

The additional funding of US\$9.715 million will cover the cost of the Procurement Facilitation Support to line ministries comprising both the extension of the Procurement Facilitation Consultant for 18 months along with the cost of US\$2.065 million for remuneration of national counterpart staff and additional short-term technical assistance that will be working in NPA for the support of this function. The AF will also provide assistance in the establishment of NPA, its structures, systems, and processes and procedures. It will include US\$1.855 million for remuneration of contracted procurement specialists and support staff; US\$1.0 million for the procurement of goods, including vehicles, office furniture and equipment, and IT equipment; US\$900,000 for the preparation of an e-Procurement readiness assessment and implementation strategy and roll-out of early activities; US\$200,000 for the refurbishment of existing facilities of the NPA at the AOP; US\$750,000 for governance and anti-corruption activities; and US\$900,000 incremental operating costs for NPA. The AF will also fund legal support for the review and amendment of the Afghan Procurement Law as a result of the Presidential decree.

**Sub-component: 1.2 Capacity Building in LM and Provinces (NPA) (Original \$8.85 million, AF Period proposal \$ 1.28 million)**

The component is expected to have a saving of \$1.4m reducing the need for AF to \$ 1.280 million, which will include \$ 480,000 as remuneration for Procurement Capacity Building Officers (PCBO), \$ 1.0 million for a training needs analysis and rollout of a new training strategy for LMs, \$900,000 for short training courses, study tours and internships and \$ 300,000 for IOC of the Training Center.

To date a high percentage of procurement staff have been trained at Basic and Intermediate levels in LMs and provinces, but training must now focus on advanced trainings. Given the low budget execution rate and procurement implementation issues at LMs, it is necessary to take stock of the training thus far provided, and to assess the areas where capacity gaps may still exist.

The trainings conducted so far have been based on providing an understanding of the Afghan Procurement Law and its Procedures. Going forward, the scope needs to be widened to adding training on contemporary procurement skills to supplement to compliance based training. Thus, over the AF period, the target is to assess procurement staff both at central and provincial level by the project end and to extend the training through a capacity development program that targets both in service development of staff, accreditation of procurement staff and twinning with organizations like the Chartered Institute of Procurement and supplies, UK (CIPS) and a leading Afghan university to deliver procurement education.

The embedding of Procurement Controllers and Procurement Specialists has not yielded the desired results and it was agreed with the NPA that these positions needed to be redefined and resources re-deployed. In the short term and for the duration of this proposed Additional Financing, these Procurement Specialists will be pulled in to the NPA for assessment and training and eventually be redeployed in ministries and provinces as necessary.

E-Procurement will be a key strategic tool in increasing the competitiveness of the national economy by reducing procurement costs and reducing risks of fraud and corruption inherent in procurement systems. The scope of this area of activity is to develop e-procurement to support Government of Afghanistan in the efficient management of its procurement processes. A detailed strategy will be developed taking into account the current infrastructure, institutional framework, stakeholders, and capacity required, with a clear strategy and critical milestones for implementation. A key aspect will be identifying the need for supply side interventions particularly in terms of connectivity, access to IT infrastructure, and capacity

In discussions, what has come out very clearly is that the Government feels that the NPA does not belong in the AOP in the long term. While the need to take swift and decisive corrective action is understood, there will need to be a strategy for the NPA to exit the AOP into some sort of independent procurement authority. This has been one of the key points of discussion with the NPA. Concurrently, capacity at ministries will need to be maintained and strengthened not only to continue to conduct procurement within their thresholds, but also to be ready for eventual decentralization. The Bank will work with NPA to develop a strategy to absorb these procurement professionals into the Capacity Building for Results (CBR) program or any other instrument mutually acceptable.

The CBR project has the mandate and resources to support the immediate and long-term personnel requirements of NPA with regard to the professionalization of the procurement profession and can facilitate the recruitment of qualified civil servants and other national/international consultant specialists. The intervention will establish a Procurement Professional Group (PPG) to be managed through a secretariat in the NPA. This secretariat will be responsible for the recruitment, development, deployment, and management of all procurement professionals within specified grades in Afghanistan. The CBR team has prepared a discussion note on the subject that will be shared with all stakeholders. This will be the single most far-reaching tool that will provide sustainability to procurement reform in Afghanistan. This plan enjoys strong support from the Office of the President.

**Component 2: Financial Management Reform**  
**(Original, US\$23.88 million; AF period proposal, US\$15.959 million)**

This component aims to support high-level PFM performance and build staff and institutional PFM capacity throughout government by supporting training, systems development, and process renewal. There are four sub-components, three of which will continue to be supported during the AF period

**Sub-component: 2.1 Treasury Operations and Systems Development**  
**(Original, US\$14.37 million; AF period proposal, US\$6.850 million)**

One of the most significant achievements of MOF is the Afghanistan Financial Management Information System (AFMIS). This stable and effective application was established in Treasury in 2002 and extends to each of the 34 Provinces in Afghanistan. In the short term, the Government wishes to upgrade/migrate AFMIS immediately to Web based-version 7.0. This is in part due to anticipated savings on day-to-day recurrent costs and enhanced systems performance. Those Treasury operations and systems development recurrent costs, which are currently funded, will continue to be funded during the AF period. The Bank is commissioning a leading treasury systems expert to evaluate the costs and benefits of this migration and the suitability of the proposed Web-based upgrade for Afghanistan. This migration, if recommended, would be funded under AF at an estimated cost of US\$3 million.

The remaining AF for this sub-component will be used to fund essential communications services to support Treasury operations (US\$1.9 million). The balance will fund establishment of an AFMIS emergency site (US\$0.75 million), a dedicated IFMIS support center (US\$0.373 million), a long-term MOF systems study (US\$0.5 million), and essential AFMIS equipment (US\$0.2 million) during the AF period.

**Sub-component: 2.2 Human Resource Capacity Development (HRDCD)**  
**(Original, US\$3.2 million; AF period proposal, US\$7.749 million)**

To address basic and higher skills gap of staff in the MOF, the project will continue to finance job-specific, certifiable finance skills and general individual training plans prepared for department staff in headquarters, financial management staff in line ministries, and *Mustofiats* (provincial offices of the Treasury) to identify priority modules of basic skills, technical skills, and job-specific skills. Under PFMR II, ten regional training centers have been established that have been instrumental in training MOF staff. These activities were rated as “very satisfactory” during the Mid-Term Review of October 2013.

Support for existing recurrent costs funded by the project for this sub-component will largely continue during the AF period. This includes national and international technical assistance for AFMIS improvement and operation, accounting, reporting, and cash management. Mustofiat trainers, HQ trainees as well as HRCD staff will continue to be funded.

Existing funding for the tuition reimbursement program for civil servants will continue in the AF period at a cost of US\$3 million. Evaluation of success and achievements of this program should be undertaken prior to incorporation of further funding in a potential future project. A summary of support required in Sub-component 2.2 is included in Table A2.1.

**Table A2.1: Analysis of support required for Financial Management Reform Component 2.2**

<i>Activity</i>	<i>Support in US\$</i>
National Individual Contractors	1,959,692
HQ trainees ( <i>No. of civil servants to be trained: 60</i> )	169,200
Mustofiat Trainees- ( <i>No. of civil servants to be trained: 356</i> )	576,000
International contractors	1,296,000
Office equipment	28,000
Incremental operating costs:-Consultants support, training & project office	180,000
HQ Training Centre	54,000
Regional Training Centres	486,000
Education reimbursement program: ( <i>Civil servants enrolled: 480</i> )	3,000,000
<b>Total</b>	<b>7,748,892</b>

**Sub-component: 2.3 Professional Accountants Organization Development  
(Original, US\$5.00 million; AF period proposal, US\$1.36 million)**

The Professional Accountants Organization Development (PAOD) sub-component faced considerable challenges in achieving its objective of establishing a legal framework and structure for development and regulation of the profession and training of professional accountants. The draft Accountancy Law is still pending with Ministry of Justice for approval and is being discussed with the President's Office. The establishment of an independent accountancy board has been agreed to in principle by the President's Office under the supervision of MoF with a set of specific terms of reference for an interim period of three to five years. The intention is that the Board will become independent after serving its term under MoF. Because the sub-component could not fully utilize its allocated budget for these reasons, the remaining funds were used up to finance activities undertaken by other sub-components in Treasury. An amount of US\$1.36 million will be required during the AF period to complete the planned activities.

The PAOD in partnership with ACCA have already prepared short-term and long-term action plans for capacity building and awareness programs for stakeholders, employers, and students. The PAOD has been engaging actively with students and training providers through a series of workshops and informational sessions.

The PAOD team is hopeful that once the Accountancy Law is approved and the accounting board is set up, project activities will progress much quicker. The planned activities during the AF period would include awarding scholarships to students pursuing professional accountancy certification. The project would also engage with Kabul University to help it operationalize the accounting faculty and develop its curriculum in line with ACCA in order to obtain maximum exemption. Support will also be provided through technical assistance, in order to draft the tax and law variant of the professional exams.

**Component 3: Audit Reform and Performance**  
**(Original, US\$24.70 million; AF period proposal, US\$9.566 million)**

This component is divided into internal and external audit activities. Under PFMR II support was earmarked for institutional reforms in internal audit and capacity building to improve management oversight. However, uncertainty over the legal framework regarding the MOF right to oversee internal audit (Article 61 of the PEFM Law- amended 2012) has persisted over the original project period. A Memorandum of Understanding (MOU) setting out capacity-building support and institutional development was eventually signed between MOF Internal Audit and four line ministries in October 2014, 2.5 years behind schedule. The President's Office is currently having discussions with MoF in order to amend Article 61 to clarify the responsibilities of MOF with regard to internal audit.

Support for external audit under PFMR II largely focused on capacity building and the independent review of on-budget donor-funded projects (audit of Bank grants), which is critical in providing the fiduciary assurance required by the Bank. In addition, the operations under the budget of selected line ministries were to be reviewed during the project period. The mobilization of the latter technical assistance was delayed.

Both Internal Audit and External Audit will continue implementation of their quality management arrangements/frameworks with a view to achieving respective International Audit Standards and thus ensuring the quality of the audit provided.

**Internal Audit**

**Sub-component: 3.1 Internal Audit Capacity Development**  
**(Original, US\$1.9 million; AF period proposal, US\$1.95 million)**

Under the capacity development sub-component, six successful cycles of the Audit Training program (ATP) have been completed. The ATP is an intensive customized course organized by MOF Internal Audit Department for internal auditors of MoF and all line ministries. During the AF period, MOF plans to provide professional certification courses for 100 internal auditors in MOF and line ministries. These will include Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified Information System Auditor (CISA), and Project Management and Professional (PMP).

The MOF Internal Audit Department has signed MOUs with Ministry of Transport (MoT) Ministry of Higher Education, (MoHE), Ministry of Education (MoE), and Ministry of Public Health (MoPH) for capacity development support. Another MOU with Ministry of Mines (MoM) will be signed shortly. As part of these MOUs, the Internal Audit Department will provide tailor-made audit courses to internal auditors of these line ministries. This would include training on use of technical audit manuals developed by MoF internal audit unit.

The amendment of Article 61 during the project period hampered activities on the institutional development sub-component (3.2). The main focus during the project period thus far has therefore been on capacity development activities under component 3.1. As such, the project anticipates spending more than the allocated budget of US\$1.9 million under this sub-component. The expenditure forecasted as of December 31, 2015, is US\$2.7 million and the excess amount of US\$0.90 million will come from the funds allocated under component 3.2. An additional US\$1.95 million is required for funding this component during the AF period.

**Sub-component: 3.2 Internal Audit Institutional Development  
(Original, \$6.2 million; AF period proposal, US\$1.50 million)**

This sub-component aimed to establish an institutional framework consistent with international practices for the profession to coordinate internal audit activities across government. However, the project could not initiate many of its planned activities under this sub-component due to changes in the legal framework which required clarification (Article 61),

MoF internal audit signed a MOU with four ministries last year. Prior to this MOF Internal Audit Department developed 8 technical internal audit manuals in line with international standards and best practices. A Quality Assurance Committee was also formed that reviews the quality of all audits conducted by MoF Internal Audit. The component was supported with both national and international technical assistance. During the AF period, audit specialists and advisors of MOF will provide support to four line ministries under the MOU for institutional development and to build their internal audit and related information technology capacity. The required AF during the 18 months of the period would be \$1.50 million.

**Sub-component: 3.3 Internal Audit Information Technology Development (Original \$1.5 million, AF period proposal \$0.616 million)**

The TOR for a proposed audit management system to automate the existing audit system is currently being prepared. The implementation of this system will be undertaken during the AF period utilizing AF support. As part of the MOU signed with four line ministries, IT equipment for the audit management system will also be provided to line ministries under this sub-component. This automation will result in more efficient and effective internal audit. This initiative will require US\$0.61 million in the AF period.

**External Audit**

**Sub-component: 3.4 Direct Audit Support – Grant Audits  
(Original, US\$5.5 million; AF period proposal, US\$2.0 million)**

The SAO continues to rely on an auditing firm for support in conducting the audit of Bank grant-funded projects. This support has focused on direct, technical audit support for planning, field work, reporting, and supervision of all ARTF and IDA operations. The progress has been satisfactory, and SAO has been submitting acceptable audited financial statements to the Bank within the 6 months of the close of the financial year. It is important that this activity is supported during the AF period to provide fiduciary assurance on the use of funds provided by ARTF and IDA.



**Sub-component: 3.5 Direct Audit Support - Line Ministries**  
**(Original, US\$3.62 million; AF period proposal, US\$2.0 million)**

The Audit Law enacted in 2013 establishes the SAO as an independent audit entity that reports directly to Parliament. The project would support SAO in implementation of a new audit methodology based on International Standards of Supreme Audit Institutions (ISSAI) for the audit of state budget statements and line ministry audits. A firm has been contracted to develop an audit manual, deliver training on use of the methodology, and lead the application of this methodology in nine ministry audits, which represent 85 percent of government operations. The firm was only mobilized in 2013 so the work will continue to December 31, 2016.

**Sub-component: 3.6 Policy Advice to the Auditor General and Coordination**  
**(Original, US\$2.78 million; AF period proposal, US\$ 0.8 million)**

This sub-component finances the cost of a full-time advisor (International Consultant) to the SAO to coordinate technical assistance and advise the Auditor General on policy and operational matters, support the Auditor General in implementing new audit law, monitor implementation of the PFMR II project, oversee the Strategic Development Plan for the SAO, and coordinate training activities in SAO and international relations. The activity will continue during the AF period.

**Sub-component: 3.7 Training Support**  
**(Original, US\$0.60 million; no additional funds required during AF period)**

English language and on-the-job training, and training in the audit methodology for line ministry audits is supported by this activity as well as the SAO training program agreement with the Office of the Auditor General of India for specialized and more advanced audits. SAO has sufficient funds to finance these training activities during the extended period.

**Sub-component: 3.8 Infrastructure Support**  
**(Original, US\$2.10 million; AF period proposal, US\$ 0.5 million)**

The project has financed physical infrastructure for audit operations, including an Information Technology Center, database systems for audit management; office furnishings; and online access to AFMIS. Some provincial offices have also been established. During the AF period, additional provincial offices will be established and the project will fund furnishing and equipment of these offices.

**Sub-component: 3.9 Public Accounts Committee (PAC) Strengthening**  
**(Original, US\$0.50 million; savings of US\$0.30 million will be diverted to other activities during AF period.)**

Public accountability through legislative scrutiny of budget execution and government expenditure is a key element of good governance and public financial management, which at the moment is missing in Afghanistan. An amount of US\$0.15 million has been spent on study visits

to PACs in other countries, but the National Assembly has not formed a PAC. During the AF period, the Bank would continue the dialogue with the Government to establish A PAC.

**Sub-component: 3.10 Preparatory Activities for Future Audit Reforms  
(AF period proposal, US\$ 0.5 million)**

SAO has identified some priority areas for the new project that include developing skills into emerging areas of audit like information system audit, state-owned enterprise audit and performance audit; increasing public participation in audit; implementing an audit management system and continuous professional development of staff; and establishing a state-of-the-art audit academy. These priorities have also been communicated to MoF for inclusion in the new PFM Strategy. SAO has also initiated an assessment of its performance using the SAI Performance Measurement Framework, which would also identify some areas of improvement. Most of these initiatives would need some preparatory work during the AF period. These activities are consistent and supportive of the aims of the ARTF Incentive Program trigger for external audit.

**Component 4: Reform Management  
(Original, US\$2.95 million; AF period proposal, US\$0.77 million)**

**Sub-component: 4.1 Strengthening Monitoring and Evaluation  
(Original, US\$0.26 million; AF period proposal, US\$0.13 million)**

The RIMU will continue with current practices of assisting MOF to develop/update its strategic plan and conduct periodic monitoring and evaluation of the progress within the Ministry.

**Sub-component: 4.2 Strengthening of MOF Human Resources Management Department  
(Original, US\$0.81 million; AF period proposal, US\$0.47 million)**

This sub-component will continue to support the Human Resources Department within MOF to enable it to carry out its strategic role. This will be a critical function given that human resource requirements will be essential to support the new PFM Strategy.

**Sub-component: 4.3 Project Management  
(Original, US\$0.38 million; AF period proposal, US\$0.17 million)**

The RIMU will continue to provide smooth operations support for this proposed PFMR II project and provide secretariat services for the project's Steering Committee.

**Component 5: Revenue Mobilization  
(Original, not funded; AF period proposal, US\$3.835million)**

Improving revenue collection is one of Afghanistan's most important economic policy challenges today and an important milestone toward greater self-reliance. Revenue mobilization has also been recognized as a top-priority for the new PFM Strategy. Afghanistan is facing significant fiscal vulnerabilities. After a decade of strong domestic revenue growth, revenues

fell to 8.5 percent of GDP in 2014 from a peak of 11.6 percent in 2011 while expenditures have been rising and aid flows have been declining.

In spite of its relevance for revenue mobilization, the Afghanistan Revenue Department (ARD) has so far been relatively underserved with international assistance and is lagging behind in terms of progress in technical capacity, institutional strength, and modernization. The Government has committed to ambitious targets for tax collection in various donor-finance, policy-based programs. Without additional assistance, especially over the short term, the achievement of these targets will be highly unlikely. The arising fiscal vulnerabilities also have the potential to undermine the expected outcomes and achievements of other areas within the new PFM Strategy by diverting away focus on transparency and accountability initiatives.

Given the importance of Revenue Mobilization for good PFM, ARD has submitted a proposal to the Bank which has been added as a new component to PFMR II during the AF period. The component includes activities related to the maintenance of computerized tax systems (SIGTAS), the implementation of initiatives such as risk-based compliance, preparing for value added tax, and establishing the new organizational structure. Supported activities are complementary to and build upon existing donor assistance. A breakdown of proposed activity and fund requirement for a 12-month period is set out in Table A2.2.

**Table A2.2: Analysis of Support Required for Component 5: Revenue Mobilization  
(12-month period only)**

Area of Support	Estimated Resources Required (US\$)
<b>1. Technical Assistance (TA):</b>	
a) Local TA	<b>660,000</b>
b) International TA	<b>1,150,000</b>
<b>c) Risk Based Compliance Programs</b>	<b>625,000</b>
a. Taxpayer Education/Public Awareness	250,000
b. Audit and Value Added Study Tours – Not Limited to Audit	250,000
c. STO Assessment Program	125,000
<b>d) Systems Support</b>	<b>700,000</b>
a. SIGTAS Support	500,000
b. AFMIS Roll – Out	200,000
<b>e) Infrastructure</b>	<b>700,000</b>
a. Office Operations and Maintenance Support	300,000
b. Equipment: Computers, Printers, Copiers, Scanners	350,000
c. Transport	50,000
<b>Total</b>	<b>3,835,000</b>

The International Technical Assistance is intended to: support in developing/updating existing tax laws and drafting a tax procedures code, build analytical capacity on revenue forecasting and estimates of tax compliance gap, institutional reform and change management, support SIGTAS deployment and business process reengineering, improve control of compliance through strengthening tax audit function, human resource and capacity building.

### ANNEX 3: REVISED ESTIMATE OF PROJECT COSTS

#### 3(a) : Comparison of Original to Proposed Financing Plan

<i>Components</i>	<i>Comparison of original and proposed financing by component</i>					
	<i>Original financing (US\$)</i>	<i>Component finance as % of total original finance</i>	<i>Proposed Additional Financing (US\$)</i>	<i>Component additional finance as % of total AF</i>	<i>Revised Total Finance (Original plus AF) (US\$)</i>	<i>Overall percentage financing per component for project lifetime</i>
<b>Component 1:</b> Procurement Reform	21,470,000	29.4 %	10,995,000	26.8%	32,465,000	28.4%
<b>Component 2:</b> Financial Management Reform	23,880,000	32.7%	15,959,000	38.8%	39,839,000	35.0%
<b>Component 3:</b> Audit Reform and Performance	24,700,000	33.8%	9,566,000	23.2%	34,266,000	30.0%
<i>Comprising:</i>						
<i>Internal Audit</i>	9,600,000	13.2%	4,066,000	9.8%	13,666,000	12.0%
<i>External Audit</i>	15,100,000	20.6%	5,500,000	13.4%	20,600,000	18.00%
<b>Component 4:</b> Reform Management	2,950,000	4.1%	770,000	1.9%	3,720,000	3.3%
<b>Component 5:</b> Revenue Mobilization	0	0%	3,835,000	9.3%	3,835,000	3.3%
<b>Total</b>	<b>73,000,000</b>	<b>100%</b>	<b>41,125,000</b>	<b>100%</b>	<b>114,125,000</b>	<b>100%</b>

## Annex 3(b): Breakdown of the Additional Financing by Subcomponent

<b>Component 1: Procurement Reform</b>	\$
1.1 Support to National Procurement Authority ( NPA)	9,715,000
1.2 Capacity Building in Line Ministries and Provinces	1,280,000
1.3 Institutional Development (absorbed into 1.1)	0
<b>Sub-total</b>	<b>10,995,000</b>
<b>Component 2: Financial Management Reform</b>	
2.1. Treasury Operations and Systems Development	6,850,000
2.2 Human Resources Capacity Development - Support for Capacity Development and Communications	7,749,000
2.3 Professional Accountants Organization Development	1,360,000
2.4 Line Ministry PFM Assessment	0
<b>Sub-total</b>	<b>15,959,000</b>
<b>Component 3: Audit Reform and Performance</b>	
3.1 Capacity Development (Internal Audit)	1,950,000
3.2 Institutional Development (Internal Audit)	1,500,000
3.3 Information Technology Support ( Internal Audit)	616,000
3.4 Direct Audit Support - Grants Audit (External Audit)	2,000,000
3.5 Direct Audit Support- Line Ministries (Qatia)	2,000,000
3.6 Policy Advice to the Auditor General and Coordination (External Audit)	800,000
3.7 Training Support under MOU with CAG of India ( External Audit)	0
3.8 Infrastructure Support (External Audit)	500,000
3.9 Public Accounts Committee Strengthening	-300,000
3.10 Preparatory Activities for Future Audit Reforms	500,000
<b>Sub-total</b>	<b>9,566,000</b>
<b>Component 4: Reform Management</b>	
4.1 Monitoring and Evaluation	130,000
4.2 Strengthen Human Resources Management Department	470,000
4.3 Project Management	170,000
4.4 Other Institutional Strengthening and Capacity Building	0
<b>Sub-total</b>	<b>770,000</b>
<b>Component 5: Revenue Mobilization</b>	<b>3,835,000</b>
<b>Total</b>	<b>41,125,000</b>

**ANNEX 4: ADDITIONAL FINANCING DISBURSEMENT PLAN**

In USD							
	Qtr 1 (Jan -Mar 2016)	Qtr 2 (Apr - Jun 2016)	Qtr 3 (Jul - Sep 2016)	Qtr 4 (Oct - Dec 2016)	Qtr 5 (Jan - Mar 2017)	Qtr 6 (Apr - Jun 2017)	Total (Jan 2016 to June 2017)
<b>Component 1: Procurement Reform</b>							
1.1 Support to National Procurement Authority (NPA)	1,077,089	1,861,014	1,816,224	1,653,558	1,653,558	1,653,558	9,715,000
1.2 Capacity Building in LM and provinces	140,653	175,504	278,897	216,847	260,147	207,953	1,280,000
<b>Sub-total</b>	<b>1,217,742</b>	<b>2,036,519</b>	<b>2,095,120</b>	<b>1,870,404</b>	<b>1,913,704</b>	<b>1,861,510</b>	<b>10,995,000</b>
<b>Component 2: Financial Management Reform</b>							
2.1. Treasury Operations and Systems Development - Continued	691,667	2,779,167	899,167	826,389	1,274,444	379,167	6,850,000
2.2 Human Resources Capacity Development - Support for Capacity Development and Communications	870,152	1,713,515	1,296,833	1,203,497	1,036,824	1,628,179	7,749,000
2.3 Professional Accountants Organization Development	197,350	194,700	254,750	191,700	255,750	265,750	1,360,000
2.4 Line Ministry PFM Assessment	0	0	0	0	0	0	0
<b>Sub-total</b>	<b>1,759,168</b>	<b>4,687,382</b>	<b>2,450,750</b>	<b>2,221,586</b>	<b>2,567,019</b>	<b>2,273,095</b>	<b>15,959,000</b>
<b>Component 3: Audit Reform and Performance (Internal Audit)</b>							
3.1 Capacity Development (Internal Audit)	87,880	411,513	255,450	360,823	311,513	522,823	1,950,000
3.2 Institutional Development (Internal Audit)	238,885	240,135	273,885	235,135	271,823	240,135	1,500,000
3.3 Information Technology Support (Internal Audit)	56,000	180,000	40,000	180,000	40,000	120,000	616,000
<b>Sub-total</b>	<b>382,765</b>	<b>831,648</b>	<b>569,335</b>	<b>775,958</b>	<b>623,336</b>	<b>882,958</b>	<b>4,066,000</b>
<b>Component 3: Audit Reform and Performance (External Audit)</b>							
3.4 & 3.5 Direct Audit Support	730,000	730,000	736,500	649,500	691,500	462,500	4,000,000
3.6 to 3.10 - Policy Advice to AG, Training support, Infrastructure & Preparatory Activities for future Audit Reforms	423,563	414,563	278,187	190,563	96,563	96,563	1,500,000
<b>Sub-total</b>	<b>1,153,563</b>	<b>1,144,563</b>	<b>1,014,687</b>	<b>840,063</b>	<b>788,063</b>	<b>559,063</b>	<b>5,500,000</b>
<b>Component 4: Reform Management</b>							
4.1 Monitoring and Evaluation	21,219	23,905	21,219	21,219	21,219	21,219	130,000
4.2 Strengthen Human Resources Management Department	72,294	90,294	94,530	76,294	74,794	61,794	470,000
4.3 Project Management	26,940	26,940	26,940	35,300	26,940	26,940	170,000
4.4 Other Institutional Strengthening and Capacity Building	0	0	0	0	0	0	0
<b>Sub-total</b>	<b>120,453</b>	<b>141,139</b>	<b>142,689</b>	<b>132,813</b>	<b>122,953</b>	<b>109,953</b>	<b>770,000</b>
<b>Component 5: Revenue Mobilization</b>							
Sub-components 5.1 to 5.5	1,103,297	894,251	894,251	943,201	0	0	3,835,000
<b>Sub-total</b>	<b>1,103,297</b>	<b>894,251</b>	<b>894,251</b>	<b>943,201</b>	<b>0</b>	<b>0</b>	<b>3,835,000</b>
<b>Total</b>	<b>5,736,988</b>	<b>9,735,501</b>	<b>7,166,832</b>	<b>6,784,025</b>	<b>6,015,075</b>	<b>5,686,579</b>	<b>41,125,000</b>



## ANNEX 5: SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

<i>Risk Categories</i>	<i>Rating (H, S, M or L)</i>
1. Political and governance	S
2. Macroeconomic	S
3. Sector strategies and policies	S
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	S
7. Environment and social	L
8. Stakeholders	M
9. Other- Sustainability of achievements	H
<b>Overall</b>	<b>S</b>

The specific project risks which could potentially affect the achievement of the PDO are as follows:

**Political and Governance:** There is a “substantial risk” to the PDO stemming from Afghanistan’s overall political situation and governance context. The serious security issues prevailing in the country will most likely affect project implementation. The high degree of political instability, fragility, uncertainty or transition could also derail project implementation. The capture of assets which are intended for use for sustainability of the impact of the project, by line ministries, can jeopardize the benefits in short and medium term.

**Macroeconomic:** There is a “substantial” risk that macroeconomic issues could affect project implementation, especially since the project will be funded mostly by a grant and does not require larger-scale funding from the GoA, and does not otherwise depend on macroeconomic policies.

**Sector Strategies and Policies:** This relates essentially to the Government’s strategy and policy for PFM which have been described earlier in this document. In the area of Public Procurement, the centralization of procurement review function to the AOP presents a significant risk in the medium term. In the short term the President’s decision to centralize is based on widespread reports of corruption in public procurement, the NPA will either eventually need to be spun off as a standalone body or decentralized as previously. There are no indications of significant structural changes to the procurement law in effect. The recent amendments mainly attempt to improve operational efficiency and to reflect the subsuming of the roles of PPU and ARDS into NPA. There is also a risk that the Accountancy Law will not be passed and that Article 61 will not be amended. However, the relevant activities in the sub-components related to PAOD and Internal Audit have been amended to ensure that they are not dependent on the aforementioned changes to the legal framework. . The level of future commitment to fiduciary assurance by GoA has yet to be articulated. This commitment will become clearer as the new

PFM Strategy and accompanying implementation plans are articulated. The overall risk for this category is thus “substantial”.

**Technical design:** There is only a “moderate” risk that the existing technical design would be of inadequate quality. The design is fully aligned to the Government policy and consistent with evolving changes. This risk is mitigated through the quality assurance of the technical design by Bank staff.

**Institutional capacity:** The project will continue to be implemented through the MoF, and no new implementation arrangements are envisaged. The risk is rated as “substantial” due to over reliance on national consultants and low civil service capacity. A transition to CBR posts is encouraged to address this issue. During this bridging period the implementing entities continue to be strengthened by additional TA provided through PFMR II to implement the project.

**Fiduciary:** The proposed AF will be implemented by the same agency as for the original financing, that is, the MoF. The MoF has been implementing the original project for four years and has good experience and the capacity to implement the activities under the AF. Delays in procurement however continue to be a cause of concern. Payments typically take much longer than the number of days stipulated in most contracts. Multiple reviews, absence of clarity of roles and responsibilities amongst the civil servants, convoluted approval processes, lack of adequate delegation/devolution of powers and in some cases overlapping responsibilities are contributing to such delays. The implementing entities have gained significant experience in procurement and FM which will continue to be strengthened through appropriate level of technical assistance and supervision to mitigate the risks. Based on the current assessment, the overall fiduciary risk rating is “Substantial” (see also the main body of Project Paper).

**Environment and Social:** The proposed AF project is classified as Category C and it has no adverse environmental impacts. The funding under this AF is aimed at providing technical assistance and procurement of some goods and does not envisage funding of any new civil works or acquisition of land or new construction. The risk rating is thus *Low*.

**Stakeholder:** At the present time, the project is universally supported by all key stakeholders at the national level, due to its clear and obvious importance for Afghanistan and full alignment with the Government policies. The risk is rated as moderate.

**Other risks.** This category is rated as “high”. There are two elements a) sustainability of achievements and Low/competition/Quality of Resources

**Sustainability of Achievements:** The continuity of policies and sustainability of the achievements needs continued support from the Government and sustained funding. The risk associated with mainstreaming of large number of contracted technical assistance into cadres of civil service will need to be managed proactively. In absence of clearly identifiable and committed future funding for reforms, uncertainty in continuation of the Government policies with the fragile, conflict and issues security in medium & long term.

**Low Competition/Poor Quality of Resources:** There is reduced level of interest in bidding for goods and submission of Expression of Interests for consultancy contracts due to deteriorated security situation and uncertainty in Kabul/Afghanistan. Neither are consulting firms able to mobilize quality resources.

