



# 2016 ANNUAL PERFORMANCE ASSESSMENT REPORT OF THE 5-YEAR ROLLING FISCAL PERFORMANCE IMPROVEMENT PLAN

Afghanistan Building  
More efficient and effective public services;  
Stronger fiscal discipline; and  
Strategic fiscal policy

## Abstract

**This is the first Annual Assessment of performance** for implementation of the 5-year rolling Fiscal Performance Improvement Plan (FPIP). The report is a product of the independent validators' rigorous evaluation process including observation and verification of evidence on performance. The report has considered comments from teams and from international partners.

**There have been some very good achievements in 2016** with many set to lay the foundations for significant improvements in public financial management in the future. Key achievements are in areas of national procurement, revenue and customs. The major challenges are in the budget process, which constitutes the single biggest risk to the reform process. Planned reforms to establish a credible medium term expenditure framework including costing of new and existing policy and abolishing allotments were not achieved and constitute significant development and fiduciary risks.

**League tables of team performance are presented.** Analysis reveals that the National Procurement Authority, Treasury and Revenue are the top performers.

**There are signs that an institutional culture focused on performance is emerging.** While still in the early stages of development, team responsiveness to the new performance management systems has been good.

**This report completes the first full annual cycle for team-based performance management.** The system remains fragile and vulnerable to threats. It will take at least two more cycles to embed the system and make it more resilient.

## VOLUME I

Independent Validation Team  
Ministry of Finance  
Kabul, Afghanistan

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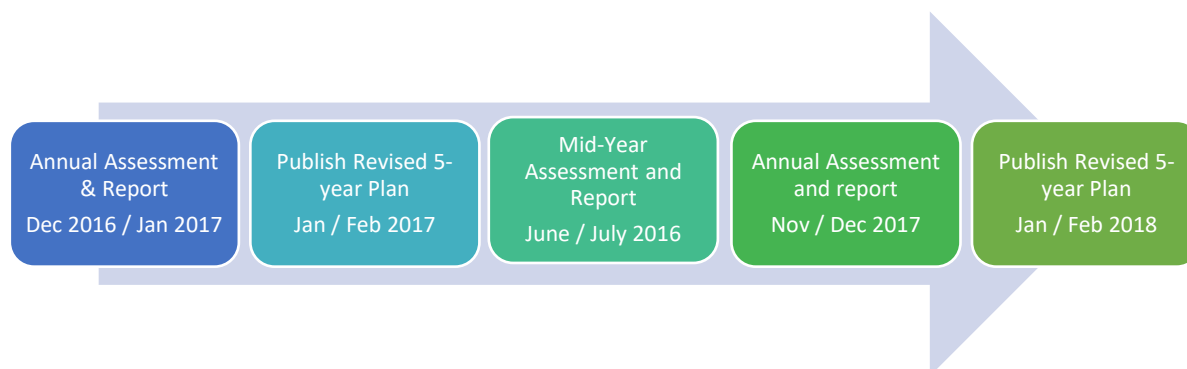
ACD	Afghanistan Custom Department	MOD	Ministry of Defence
AD	Administration Department	MOE	Ministry of Education
AEITI	Afghanistan Extractives Industries Transparency	MoE	Ministry of Education
AFMIS	Afghanistan Financial Management	MoF	Minister for Finance
AMD	Aid Management Directorate	MOF	Ministry of Finance
ANCA	Afghan National Customs Academy	MOI	Ministry of Interior
ANDF	Afghanistan National and Development Framework	MoJ	Ministry of Justice
ANPDF	Afghanistan National Peace and Development Framework	NPA	National Procurement Authority
ARD	Afghanistan Revenue Department	NPP	National Priority Programs
ARTF	Afghanistan Reconstruction Fund	NTA	National Technical Assistance
BD	Budget Department	OoCS	Office of Chief of Staff
BRT	Business Retail Tax	OoM	Office of the Minister
CBR	Capacity Building for Results	PD	Property Department
CD	Customs Department	PEFA	Public Expenditure and Financial Accountability
CSC	Civil Service Commission	PFM	Public Financial Management
CSO	Central Statistics Office	PICDG	Programs Implementation and Coordination General Directorate
DAB	Da Afghanistan Bank	PMT	Performance Management Team
EITI	Extractives Industries Transparency Initiative	RD	Revenues Department
FPIP	Fiscal Performance Improvement Plan	RIMU	Project Implementation Management Unit
HEC	High Economic Council	RRD	Revenue Reconciliation Database
HR	Human Resources	RTAS	Revenue Trend Analysis System
HRD	Human Resources Department	SAO	Supreme Audit Office
IDLG	Independent Directorate of Local Governance	SBPS	State Budget Planning System
JCMB	Joint	SMAF	Self-Reliance through Mutual Accountability Framework
KPI	Key performance Indicator	SMP	Staff Managed Program
MAIL	Ministry of Agriculture Irrigation and Livestock	SOED	State-Owned Enterprise Department
MARGD	Monitoring, Analysis and Reporting General Directorate	TA	Technical Assistance
MEW	Ministry of Energy and Water	USAID	United States Agency for International Development
MFPD	Macroeconomic and Fiscal Performance Department		
MoCIT	Ministry of Communication and Information Technology		

# EXECUTIVE SUMMARY

## INTRODUCTION

The Annual Assessment of progress against the Rolling 5-Year Fiscal Performance Improvement Plan (FPIP) was conducted from 26 November until 18 December 2016. Teams conducted a self-assessment of progress against 2016 activities from their 5 year plans. These self-assessments were then subjected to an independent validation process facilitated by the Performance Management Team (PMT) in the Macro-Fiscal Performance Department (MFPD) in the Ministry of Finance (MOF).

Figure 1. The 2016 – 17 Performance Management Cycle



Each team’s performance was assessed in three dimensions – timeliness, quality and effectiveness – and assigned a performance score. Scores were also adjusted for the risk (difficulty) of activities and the impact (importance) of the activity, providing risk and impact adjusted scores, as well as relative and raw scores. Scores were also adjusted for the amount of technical assistance (TA) used, in accordance with the Government’s “Self-Reliance” agenda – activity grades that used less TA received bonus marks.<sup>1</sup>

## HEADLINE ISSUES

### Leadership

**This is the first full performance cycle for the FPIP but there are already some promising signs.**

There was a marked improvement in engagement with the performance assessment by Director-Generals and Directors since the mid-year assessment. There is very strong political leadership from the President and the Minister for Finance for fiscal and budget reforms but this commitment must be backed up with sustained engagement from all levels of management and from key donor partners.

**These first signs of a change in the culture towards one of performance and effectiveness are still fragile** and the program will take a number of annual performance cycles to become routine. The team-based performance management system that is designed to help create a performance focused culture remains vulnerable to threats. It will take at least two more cycles to embed the system and make it more resilient.

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<sup>1</sup> For more details on the performance management system see “Implementation of the Public Financial Management Roadmap II – the Inaugural 5 year rolling plan” GoIRA 2016 at <http://mof.gov.af>

### Ownership and clarity of reform plans

**There are very positive signs that the performance management system and the rolling plans are starting to have an impact.** Most teams demonstrated a much stronger sense of ownership and knowledge of the plans between the mid-year tracking assessment and the final annual assessment. The Revenue Department was the stand out with a strong commitment from the Director General to monitoring the implementation of the plans and on teams preparing well for the assessment process. All teams in the Revenue Department presented strongly to the validation team and came prepared with detailed evidence on their activities. This has set a high standard for other teams and future assessments.

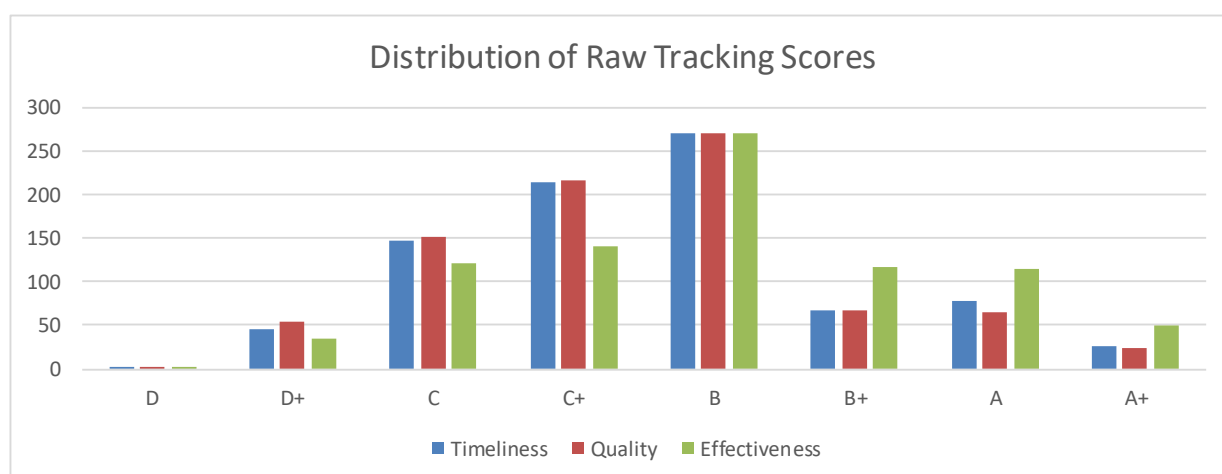
**Similarly, most teams recognised that their initial 5 year rolling plans were not as good as they could have been.** As a first plan, most teams acknowledged that with a much better understanding of the process they will produce a much better plan for 2017 much more closely aligned to their goals and workplans. Most teams demonstrated to the independent validation team an enthusiasm for rolling over their plans and adjusting them in early 2017.

**Participation by all team members could still be higher, with not enough representation from civil servants or tashkeel staff in the assessment meetings.** Almost all teams had done their self-assessment prior to meeting with the validation team, but more consistent team level discussions on the plans and progress will help to improve the outcomes from the FPIP.

### Dependency on external support is still significant

**While the independent validation team can see a definite increase in the level of ownership over the reform agenda across all teams, there is still a relatively high dependency on external assistance.** This takes two forms, one, key technical functions such as budget and treasury, where they still have large numbers of consultants, albeit more Afghans than internationals, and two, teams that have suffered from low investment, especially the corporate, procurement and accounting teams and so are unable to fully meet the needs of the teams they provide services to. This results in donors often filling the gaps and inadvertently fragmenting the effort to bring the ‘back of house’ operations up to a satisfactory standard. This needs to be addressed through better targeting of resources through national systems in support of the 5 year rolling plans.

**Figure 2. Distribution of Raw Performance Tracking Scores**



A total of 855 activities (65%) were scored during the annual assessment, out of the 1,308 activities that are on the Fiscal Performance Improvement (FPIP).

## FLAGSHIP ACHIEVEMENTS

### *Policy*

**The successful development of the Afghanistan National Peace and Development Framework (ANPDF)** and presentation to the international community in Brussels in October 2016 was a very significant achievement. ***The Citizen's Charter, a National Priority Program completed this year***, will provide \$630 million or Afs42 billion to local Community Development Councils for them to spend on local infrastructure and services as well as investments through urban communities. ***The High Economic Council is meeting regularly*** and is supported by a secretariat in the Macro-Fiscal Performance Department (MFPD).

### *Budget Formulation*

**The budget process for 2017 included the first steps towards development of forward estimates to give practical meaning to the medium term fiscal framework.** Introducing a medium-term expenditure framework that focuses on how much fiscal space is available over the medium-term for the Government to invest in national priorities set out in the ANPDF is a crucial step in making the national budget a tool to drive national priorities for the people of Afghanistan. Some progress has been made in the 2017 budget with the provision of tables of provincial breakdowns.

### *Budget Execution*

**There is a very good story to tell on budget execution.** The estimate for actual expenditure for 2016 is around Afs370 billion or \$5.5 billion, representing a budget execution rate of 83 percent against the original budget. This represents an increase of 16 percent on the Afs318 billion the Government spent in 2015. This good result is unfortunately overshadowed by the continuation of over budgeting, which also keeps the focus on budget execution at the expense of budget quality and credibility.

### *Treasury*

**The Government's accounting system is on its way to becoming a tool to detect and deter corruption.** The long-awaited upgrade to the Afghanistan Financial Information Management System (AFMIS) has been approved. The \$2.8 million contract will set the foundation to move from a basic transaction recording system, to a fully integrated management solution that links all parts of the public finance systems from budgets, to accounts, from payroll to personnel, from procurement to contracts, and from banking to payments.

### *Procurement*

**The National Procurement Authority (NPA) has made outstanding progress in establishing a high-quality institution with a strong performance culture.** This has enabled them to carry forward the President's vision for improving procurement across the Government. Better use of competition and robust oversight and monitoring systems has led to significant savings to the budget of around Afs18 billion or \$270 million.

### *Revenue*

**The Afghanistan Revenue Department (ARD) is delivering on its mandate – with Tax revenue collection up by 11% from the previous year (YoY) – with pro-rata forecast actual tax collections at Afs92 billion at the end of the third quarter. Non-tax revenue is up 70 percent YoY with pro-rata forecast actual collection being Afs44 billion up from Afs33 billion. Excluding custom**

revenues, this equates to an overall increase in tax and non-tax revenue compared to 2015 of 25 percent (Afs35 billion).

**The Afghanistan Customs Department (ACD) has undergone a significant leadership and culture change that is beginning to show results, particularly in combatting corruption. ACD has been able to double revenue from mobile collection units,** and the roll out of the Customs information management system (ASYCUDA) to more provinces is on track. With new leadership in both ARD and ACD there is a significant culture change towards a performance and client orientated focus taking place, which if supported politically will be a key determinant of Afghanistan achieving its goal of self-reliance.

### *Operations*

**The MOF has invested a significant amount in establishing an IT backbone.** This has been an area of under-investment, but good progress is being made. ***The policy to move staff onto the Capacity Building for Results (CBR) program is progressing with most teams now having revised tashkeel approved*** and processes to move staff onto CBR underway. The Minister for Finance has also initiated a 7 per cent reduction in the total number of tashkeel positions in the MOF which has been completed.

## KEY CHALLENGES

### *The Budget process*

**The formulation of the budget is the single biggest risk identified in the Annual Assessment and needs significant attention in 2017 if the government is to achieve its reform goals.** There was poor progress on reforms such as putting in place a medium-term expenditure framework by constructing forward estimates, developing methodologies for costing existing and new policy, removing allotments and switching the focus of the team to quality of expenditure.

**Without a significant commitment to these reforms it will be difficult to achieve a consolidated national budget and to align the budget with new priorities identified in the ANPDF.** Despite the High Economic Council providing some guidance, Budget Committee presented a budget for 2017 that was not realistic and had to be cut back in consultation with the Minister for Finance and the President at the last moment. The routine practice of the automatic carry forward of underspends in programs from one year to the next is contrary to the existing legal framework and is largely driving the endemic over-budgeting problem. **Key priorities of the Government were left out of the budget altogether and will need to be addressed in the mid-year review of the budget.**

### *Leadership*

**More progress in establishing an effective leadership group within the MOF is required to drive reforms.** The MOF has two acting Deputy Ministers (Policy and Administration) and the leadership group of the Minister, Deputy Ministers and Director Generals has not met regularly throughout 2016.

### *Ownership and clarity of reform plans*

**As already noted, ownership of the plans has improved significantly in most teams, but there is some way to go.** Directors have generally been engaged but they often delegate the assessment to one member of staff, often a technical adviser or contractor. Participation by all team members is still too low especially tashkeel staff. This lack of a team based approach to the FPIP by some teams hinders the ownership and understanding of the plan. It also makes it harder for the independent validation team to understand the real capacity of the teams.

### *External support and progress with donors will be an issue in 2017*

**Discussions with donors on support for the FPIP are progressing, but will not be concluded until the middle of 2017 at the earliest.** The main partner will be the World Bank who have indicated that they will support the whole Fiscal Reform Program in principle, across all activities in the 5 year plans.

### *More investment and a bigger vision are required for Revenue and Customs*

**The revenue and customs departments need much bigger vision and a massive increase in investment.** Despite their size and complexity, both have just one Director General. There is no dedicated HR, IT, procurement or operations function for either department. These are crucial departments for the Government in achieving self-reliance and treating them in the same way as other Directorate Generals is a not going to work. A long-term strategic plan to expand both departments is required as soon as possible.

### *The corporate backbone and development*

**The corporate backbone of the Ministry of Finance remains gravely weak** and cannot properly support the operations of departments. A very large and sustained investment in the backbone of the Ministry – HR, IT, procurement, finance, accounting, operations and maintenance – is required.

### *Systems Development*

**The Ministry of Finance lacks an overall vision for the simplification and standardization of its lengthy and corruption prone business processes, non-responsive tasheel and decision support systems** throughout the ministry at the central and provincial levels. Systems are not properly documented and functions not properly specified. This is driving the issues of over / under-planning and overlapping of activities.

### *Institutional Capacity development and Utilization*

**The capacity development process lacks a systematic approach.** Key competencies are not defined, needs are not properly assessed and the skills developed are not properly institutionalized and utilized. For example, the Tax academy is a great resource but is currently underutilized. The academy needs to be transformed into a **Financial Excellence Center (FEC)**. Competencies and syllabi need to be developed and public servants trained and tested.

### *Behaviour Change*

**There is a lack of strategic vision and operations directed** at changing the behaviour and conduct of staff interacting with customers / clients. State-Owned Enterprises (SOE's) and State-Owned Corporations (SOCs) are not given the required attention and systematic support in order to vitalize and revive these entities.

## **LEAGUE TABLE OF TEAM PERFORMANCE**

**League tables of team performance are presented below** for directorate generals and directorates. Best and fairest league tables rank team grades that have been adjusted for risk, impact and levels of technical assistance (TA). Performance league tables rank teams without adjustment (i.e. it grades performance for timeliness, quality and effectiveness only). Performance outcomes presented in league tables is a simple way to summarize performance of administrative units. Standardized grades are also provided.

**Table 1. 2016 “Best and Fairest” League Table: Directorate Generals**

Rank	Agency Level Grouping	X Grade	X Score	X Grade Std	X Score Std
1	National Procurement Authority	A	0.85	A+	2.59
2	Revenues Department	B	0.68	A+	0.83
3	Treasury Department	B	0.65	A	0.53
4	Customs Department	B	0.64	B+	0.45
5	AEITI	B	0.61	B	0.14
6	Office of the Minister	B	0.61	B	0.13
7	Macro-Fiscal Performance Department	B	0.61	B	0.09
8	Aid Management Directorate	B	0.61	B	0.07
9	Admin Department	B	0.60	B	0.04
10	Property Department	C+	0.59	B	-0.06
11	Insurance Department	C+	0.59	B	-0.07
12	Human Resources Department	C+	0.58	C+	-0.22
13	Monitoring, Analysis and Reporting	C+	0.56	C+	-0.39
14	Internal Audit Department	C	0.54	C+	-0.60
15	Programs Implementation and Coordination	C	0.52	C	-0.78
16	Reform Implementation Management Unit	C	0.52	C	-0.79
17	Budget Department	C	0.51	C	-0.90
18	SOE Department	D+	0.50	D+	-1.05
19	Revenue Planning Department	n/a	n/a	n/a	n/a

*In this table, the X Score is the adjusted score, which is the raw performance score (the weighted average for Timeliness, Quality and Effectiveness grades) adjusted for TA, Risk and Impact. Standardized grades (std) are raw scores adjusted to fit a normal distribution.*

**Table 2. 2016 “Best and Fairest” League Table: Directorates**

Rank	Agency Level Grouping	X Grade	X Score	X Grade Std	X Score Std
1	National Procurement Authority (NPA)	A	0.85	A+	2.59
2	RD: Office of the DG (Revenue)	B	0.73	A+	1.40
3	RD: Large Taxpayers Office	B	0.72	A+	1.27
4	AD: IT	B	0.71	A+	1.19
5	TD: Payments	B	0.71	A+	1.16
6	RD: Revenue Services and Support	B	0.70	A+	1.07
7	RD: Medium Taxpayers Office	B	0.70	A+	1.05
8	RD: Legal	B	0.70	A+	1.04
9	CD: Law Enforcement	B	0.69	A+	0.92
10	TD: Treasury Systems Development	B	0.68	A	0.80
11	CD: Monitoring & Prev'g Customs Violations	B	0.67	A	0.72
12	AD: MoF Project Implementation Unit	B	0.66	A	0.68
13	CD: Customs Support and Development	B	0.66	A	0.64
14	RD: Non-Tax Revenue	B	0.66	A	0.61
15	CD: Operations	B	0.65	A	0.58
16	RD: Small Taxpayers Office	B	0.65	A	0.51
17	OoM: Legal Board	B	0.64	B+	0.45
18	RD: Technical and Provincial Liaison	B	0.64	B+	0.42
19	HRD: Organizational Development	B	0.63	B+	0.35
20	OoCS: Chief of Staff Operations	B	0.63	B+	0.33
21	MFPD: Fiscal Directorate	B	0.62	B+	0.21
22	AEITI Secretariat	B	0.61	B	0.14
23	MFPD: Admin and Reporting Unit	B	0.61	B	0.14
24	HRD: Recruitment Development	B	0.61	B	0.13
25	AMD: Aid Management	B	0.61	B	0.07
26	MFPD: Performance Management Team	B	0.60	B	0.04
27	PD: Registration and Resolution Directorate	B	0.60	B	0.03
28	OoM: Communications and Public Relations	B	0.60	B	0.01
29	PD: Capital Properties (Kabul) Directorate	C+	0.60	B	-0.01
30	OoCS: Archive Office	C+	0.60	B	-0.02
31	OoM: Office of the Chief of Staff	C+	0.60	B	-0.02
32	RD: Appeals	C+	0.59	B	-0.07
33	HRD: Performance Appraisal & Record Keeping	C+	0.59	B	-0.07
34	ID: Insurance Affairs	C+	0.59	B	-0.08
35	MFPD: Macroeconomic Unit	C+	0.59	B	-0.13

Rank	Agency Level Grouping	X Grade	X Score	X Grade Std	X Score Std
36	OoCS: Correspondence Office	C+	0.58	B	-0.16
37	IAD: Office of the DG	C+	0.58	B	-0.18
38	CD: Customs Technical Affairs	C+	0.58	C+	-0.20
39	PD: Provincial Property Directorate	C+	0.58	C+	-0.23
40	MARGD: Analysis and Reporting	C+	0.57	C+	-0.26
41	HRD: Training & Development	C+	0.57	C+	-0.35
42	TD: Accounting	C+	0.56	C+	-0.37
43	OoCS: Protocol Office	C+	0.56	C+	-0.45
44	MARGD: Directorate of Program Monitoring	C+	0.55	C+	-0.51
45	BD: Budget Policy	C	0.54	C+	-0.58
46	PICGD: Coordination of NPPs	C	0.54	C	-0.63
47	AD: Procurement and General Services	C	0.54	C	-0.65
48	IAD: Budget and Treasury Audit	C	0.54	C	-0.65
49	IAD: Customs and Revenue Audit	C	0.53	C	-0.70
50	IAD: Compliance & IT Audit & Fraud Invest'n	C	0.53	C	-0.72
51	AD: Gender Unit	C	0.53	C	-0.74
52	IAD: Budgetary Audit and Capacity Dev't	C	0.53	C	-0.76
53	RIMU	C	0.52	C	-0.79
54	HRD: Employee Relations	C	0.52	C	-0.84
55	PICGD: Directorate for Policy Research	C	0.52	C	-0.84
56	SD: Financial Monitoring SoEs	C	0.52	C	-0.85
57	AD: Finance and Accounting	C	0.52	C	-0.86
58	AD: Auctions and Disposals Unit	C	0.51	C	-0.89
59	SD: Policy & Coordination	C	0.51	C	-0.92
60	SD: Financial Monitoring SoCs	D+	0.49	D+	-1.19
61	SD: Divestiture of SPE's & Est. of New SOE/Cs	D+	0.48	D+	-1.26
62	OoCS: Translation Board	D+	0.47	D+	-1.34
63	BD: Budget Execution	D+	0.47	D+	-1.38
64	OoCS: Non-Allocated Advisor Pool	n/a	n/a	n/a	n/a
65	RPD: Revenue Analysis and Forecasting	n/a	n/a	n/a	n/a
66	RPD: M&E of Revenue Targets	n/a	n/a	n/a	n/a

In this table, the X Score is the adjusted score, which is the raw performance score (the weighted average for Timeliness, Quality and Effectiveness grades) adjusted for TA, Risk and Impact. Standardized grades (std) are raw scores adjusted to fit a normal distribution.

**Table 3. 2016 Performance League Table: Directorate Generals**

Rank	Agency Level Grouping	Raw Weighted Grade (TQE)	Raw Weighted Score (TQE)	Standardised Grade	Std Deviation
1	National Procurement Authority (NPA)	A	0.88	A+	2.53
2	Treasury Department	B	0.72	A+	1.08
3	Revenues Department	B	0.67	B+	0.49
4	Customs Department	B	0.66	A	0.52
5	AEITI	B	0.66	B+	0.45
6	Macro-Fiscal Performance Department	B	0.65	B+	0.39
7	Office of the Minister	B	0.64	B+	0.30
8	Property Department	B	0.63	B	0.18
9	Aid Management Directorate	B	0.60	B	-0.02
10	Human Resources Department	C+	0.59	B	-0.17
11	Insurance Department	C+	0.58	C+	-0.28
12	Admin Department	C+	0.58	C+	-0.29
13	Reform Implementation Management Unit	C+	0.56	C+	-0.44
14	Internal Audit Department	C+	0.56	C+	-0.46
15	Monitoring, Analysis and Reporting	C+	0.56	C+	-0.47
16	Budget Department	C	0.50	C	-0.94
17	Programs Implementation and Coordination	D+	0.49	D+	-1.10
18	SOE Department	D+	0.48	D+	-1.12
19	Revenue Planning Department	-	0.00	-	0.00

Timeliness (T), Quality (Q) and Effectiveness (E) grades weighted as 20%, 30% and 50% respectively. TA, Risk and Impact are not included in this league table. Raw scores are the weighted average grades. Standardized grades are scores adjusted to fit a normal distribution. NB. Revenue Planning Dept. was abolished in 1395-2016 with functions merged with MFPD, ARD and ACD.

**Table 4. 2016 Performance League Table: Directorates**

Rank	Agency Level Grouping	Raw Weighted Grade (TQE)	Raw Weighted Score (TQE)	Standardised Grade	Std Deviation
1	National Procurement Authority (NPA)	A	0.88	A+	2.53
2	TD: Payments	A	0.80	A+	1.80
3	RD: Office of the DG (Revenue)	B+	0.77	A+	1.52
4	TD: Treasury Systems Development	B	0.74	A+	1.20
5	RD: Large Taxpayers Office	B	0.72	A+	1.04
6	CD: Law Enforcement	B	0.72	A+	1.01
7	CD: Customs Support and Development	B	0.71	A+	0.92
8	RD: Medium Taxpayers Office	B	0.69	A	0.80
9	AD: IT	B	0.69	A	0.75
10	RD: Revenue Services and Support	B	0.69	A	0.73
11	MFPD: Admin and Reporting Unit	B	0.68	A	0.71
12	RD: Legal	B	0.68	A	0.70
13	OoM: Legal Board	B	0.67	A	0.56
14	HRD: Organizational Development	B	0.67	A	0.54
15	RD: Non-Tax Revenue	B	0.66	A	0.53
16	OoCS: Chief of Staff Operations	B	0.66	B+	0.49
17	PD: Registration and Resolution Directorate	B	0.66	B+	0.47
18	CD: Operations	B	0.66	B+	0.46
19	MFPD: Performance Management Team	B	0.66	B+	0.45
20	AEITI Secretariat	B	0.66	B+	0.45
21	CD: Monitoring & Prev'g Customs Violations	B	0.65	B+	0.40
22	MFPD: Fiscal Directorate	B	0.64	B+	0.34
23	HRD: Recruitment Development	B	0.63	B+	0.24
24	OoM: Communications and Public Relations	B	0.63	B+	0.24
25	TD: Accounting	B	0.63	B+	0.23
26	PD: Capital Properties (Kabul) Directorate	B	0.63	B+	0.22
27	RD: Small Taxpayers Office	B	0.63	B	0.18
28	OoCS: Archive Office	B	0.63	B	0.17
29	AD: MoF Project Implementation Unit	B	0.62	B	0.15
30	OoM: Office of the Chief of Staff	B	0.62	B	0.13
31	MFPD: Macroeconomic Unit	B	0.62	B	0.13
32	RD: Technical and Provincial Liaison	B	0.61	B	0.03
33	AMD: Aid Management	B	0.60	B	-0.02
34	IAD: Office of the DG	C+	0.59	B	-0.13
35	OoCS: Correspondence Office	C+	0.59	B	-0.14
36	CD: Customs Technical Affairs	C+	0.59	B	-0.16
37	PD: Provincial Property Directorate	C+	0.59	B	-0.17
38	HRD: Performance Appraisal & Records	C+	0.59	B	-0.19
39	OoCS: Protocol Office	C+	0.59	B	-0.20
40	ID: Insurance Affairs	C+	0.58	C+	-0.23
41	MARGD: Analysis and Reporting	C+	0.58	C+	-0.29
42	HRD: Training & Development	C+	0.57	C+	-0.31
43	RIMU	C+	0.56	C+	-0.44
44	IAD: Budget and Treasury Audit	C+	0.55	C+	-0.50
45	RD: Appeals	C	0.55	C+	-0.52
46	IAD: Compliance & IT Audit & Fraud Invest'n	C	0.55	C+	-0.55
47	AD: Gender Unit	C	0.55	C+	-0.56
48	IAD: Customs and Revenue Audit	C	0.55	C+	-0.56
49	IAD: Budgetary Audit and Capacity Devt.	C	0.55	C+	-0.57
50	BD: Budget Policy	C	0.54	C+	-0.57
51	MARGD: Directorate of Program Monitoring	C	0.54	C	-0.66
52	HRD: Employee Relations	C	0.53	C	-0.75
53	PICGD: Coordination of NPPs	C	0.51	C	-0.90
54	PICGD: Directorate for Policy Research	C	0.51	C	-0.93
55	OoCS: Translation Board	C	0.50	C	-0.98
56	SD: Policy & Coordination	D+	0.50	C	-0.99
57	SD: Financial Monitoring SoEs	D+	0.50	C	-1.00
58	AD: Procurement and General Services	D+	0.50	D+	-1.02
59	AD: Auctions and Disposals Unit	D+	0.49	D+	-1.04
60	SD: Financial Monitoring SoCs	D+	0.49	D+	-1.07

Rank	Agency Level Grouping	Raw Weighted Grade (TQE)	Raw Weighted Score (TQE)	Standardised Grade	Std Deviation
61	AD: Finance and Accounting	D+	0.49	D+	-1.08
62	BD: Budget Execution	D+	0.45	D	-1.48
63	SD: Divestiture of SPE's & Est. of New SOE/Cs	D+	0.43	D	-1.59
64	OoCS: Non-Allocated Advisor Pool	n/a	n/a	n/a	n/a
65	RPD: Revenue Analysis and Forecasting	n/a	n/a	n/a	n/a
66	RPD: M&E of Revenue Targets	n/a	n/a	n/a	n/a

*Timelines (T), Quality (Q) and Effectiveness (E) grades weighted as 20%, 30% and 50% respectively. TA, Risk and Impact are not included in this league table. Raw scores are the weighted average grades. Standardized grades are scores adjusted to fit a normal distribution. NB. Revenue Planning Dept. was abolished in 1395-2016 with functions merged with MFPD, ARD and ACD.*

## KEY OUTCOMES AND FUTURE DIRECTIONS

**Early signs from this first full performance cycle are there that teams are responding to positive incentives.** To reinforce this emerging culture change at the team level, the budget needs to support the FPIP and ensure that the gaps identified by all teams are to the maximum extent possible all met with increased and better targeted resources. This requires a strong ongoing commitment from the Minister, the Deputy Ministers, the DGs and their development partners.

**The Government needs to carefully consider the performance outcomes, judge for themselves the progress being made and allocate resources accordingly.** All teams matter and progress needs to be made across the board, not just in a few high-profile areas. If Team Based Performance Management is to be sustained and rolled out to other parts of the Government it will require **more investment in the facilitation function (the PMT) and the independent validation function**, bringing in additional expertise in key areas.

**The Annual Assessment Report is split into two volumes. Volume I** is the report on progress by the Government against its goals under the Fiscal Performance Improvement Plan. **Volume II** includes the statistical annexes including the full set of league tables, the sensitivity analysis, the parameters for the model, the record of the validation process and meetings by team and one page summaries of the risk / impact profiles, achievements and challenges by team.

## INTRODUCTION

**The Fiscal Performance Improvement Plan (FPIP) is a framework to support the Government of Afghanistan reach its goals of sustainable government finances and self-reliance.** It consists of a series of rolling 5-year plans that focus on the continuous improvement of teams, rather than the more common approach of focusing on themes. The rationale behind this approach is set out in detail in the “Implementation Paper”<sup>2</sup> produced in 2015 and “The Inaugural 5-Year Rolling Plan.”<sup>3</sup> These papers raised key principles including “why team based performance matters” (see Box 1) and the seven goals for performance management” (see Box 2).

### **Box 1. Why Team Based Performance Matters**

Team based performance matters to leadership and reflects 5 core values. We Believe That:

- 1. Strong Teams Deliver the Best Results**
- 2. Every Team and Every Team Member Matters**
- 3. Measuring, Rating and Ranking Performance Helps Teams Work Better and Deliver Better Results**
- 4. We Must Recognize Efforts of Hard Working Teams and Help Those Teams Who Need It The Most**
- 5. A Resilient and High Performing MoF will Help Realise a Long and Prosperous Future for Afghanistan and All Its People**

**The program is based on a number of underlying principles of performance:**

- **The purpose of development interventions is, or should be, continuous improvement** in the capacity of civil servants to deliver core services. Outputs are important but the long-term goal for countries is self-reliance.
- **Evidence that institutions are improving over time** should be used to grade performance. A binary process of monitoring achievement of outputs (or not), is a poor way to measure performance.
- **Incentives for staff matter.** Performance management systems must provide incentives to staff to keep improving and to be honest about progress.
- **Building institutions is important.** Investments in all functions, including HR, Admin, IT, procurement and operations are important.
- **Fragmentation leads to significant inefficiencies.** Fragmentation comes in three dimensions, fragmentation of budgets and resource allocation systems, fragmentation in accounting and classification systems, and fragmentation in systems for scrutiny and reporting.

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<sup>2</sup> PMT, 2015, “[Implementation of The Public Financial Management Roadmap II: Achieving A Performance Culture in A Conflict Affected Afghanistan. Team-Based Performance Management of A 5 Year Rolling Fiscal Performance Improvement Plan](#)”, Ministry of Finance, Kabul, Afghanistan.

<sup>3</sup> PMT, 2016, “[Implementation of The Public Financial Management Roadmap II – The Inaugural 5-Year Rolling Plan, Ministry Of Finance Delivering: Efficient And Effective Public Services; Strong Fiscal Discipline; And Strategic Fiscal Policy](#)”, Ministry of Finance, Kabul, Afghanistan.

**This is the first annual assessment of progress against the 5-year rolling FPIP by teams.** The plan was developed through a Government driven process with a high degree of ownership over the proposed reforms. The President formally launched the program on 6 August 2016. This plan covers the full spectrum of reforms, from developing a fiscal policy framework to guide the budget, analysis of fiscal space, adopting a medium-term expenditure framework with a consolidated national budget, improved cash management and commitment controls, with upgraded systems that integrate procurement, contract management and cash management, and improved reporting and audit of public expenditure.

**Box 2. The Seven Goals for Performance Management:**

**Deliver on the Three Core Budgetary Outcomes**

- 1. Improve efficiency** and effectiveness of public services and service delivery (better education, improved health and greater confidence in government)
- 2. Deliver sustainable public finances** by being strategic on how resources are allocated, distributed and spent (economic efficiency)
- 3. Strengthen fiscal discipline** by doing what we say, hitting our targets, and running orderly processes

**Deliver on Four Complimentary High Priority Objectives**

- 4. Manage an improving, stable and secure economy** creating jobs, increasing opportunities for all, reducing uncertainty and creating conditions for stability
- 5. Be more accountable** to all stakeholders in the pursuit of good governance
- 6. Be more transparent** – to different internal and external stakeholders ; on what the government is doing; in a way that is relevant to stakeholders
- 7. Deliver continuous improvement** through integrated systems of trial and error based around the integrity of the budget cycle.

**The plan is starting with the core departments managing public financial management in the Ministry of Finance (MOF) and two external agencies,** the AEITI Secretariat and the National Procurement Authority (NPA). Over the next 12 months, the plan may incorporate other key agencies such as the Supreme Audit Office (SAO), the Central Statistics Office (CSO) and the Independent Directorate for Local Government (IDLG) and will include key line ministries from 2017 with a focus on budget planning, execution and reporting.

**The plan recognizes that the challenges facing the Government in reforming public financial management are large and complex.** Progress will take time and there will be set backs along the way. That is why this plan is set in a framework of 5-year rolling plans. Each year there will be a mid-year assessment of progress, an annual performance assessment with a published report on results, leading to a revised 5-year plan at the beginning of each year. This plan follows the budget cycle and integrates with the Government’s established business processes.

**The government has already made huge progress.** From 2015 when this process began MOF and partners have moved from multiple support programs with little strategic planning to single government led plan, plans that are rolling, multi-year and annual with aspirational targets against International Benchmarks. There is now one consolidated report that covers all areas of the work of the MOF and two partner agencies. Monitoring of Performance against plans (not just outputs or outcomes) is done every 6 months with the assessments

independently validated and published on the MOF website. These are very significant achievements in their own right.

**Despite this promising start, the reform program is fragile.** There are many detractors and the process will need time to become routine. The assessment and validation systems will need to be refined and increase in credibility, and the reform effort will need to expand to key line ministries over time. There is a long road ahead.

**The report is structured around seven sections:**

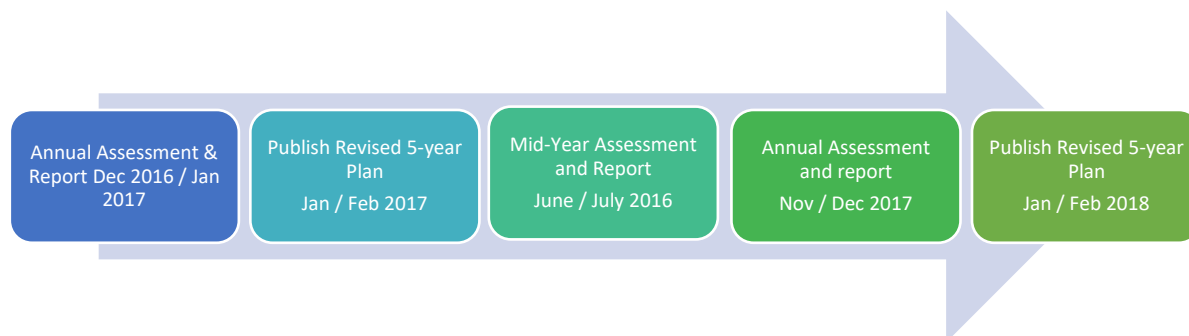
- ***The first section on “Tracking flagship achievements”*** reports on progress of the flagship reforms from the inaugural 5-year plan. The discussion focusses on the level of satisfactory progress, highlighting key achievements and challenges.
- ***The second section discusses Key Challenges.***
- ***The third section on “Rising to the challenges – progress and setbacks”*** presents some key league tables of performance with a discussion on the top performing agencies and the challenges they face.
- ***The fourth section “Performance dimensions”*** presents the statistical outcomes of performance looking at the impact (importance) and risk (of failure) profile of activities under the plan.
- ***The fifth section on “Staffing and technical assistance”*** reviews Technical Assistance levels in each Team and compares that with activity based TA requirements identified in the 5-Year plans.
- ***The sixth section discusses changes to the PEFA framework*** and the implications for Afghanistan.
- ***The seventh section covers the Sensitivity Analysis*** of the performance management system to changes in parameters.
- ***The final section presents a discussion of key outcomes and future directions.***

**The Annual Assessment Report is split into two volumes. Volume I** provides a report on progress by the Government its goals under the Fiscal Performance Improvement Plan. **Volume II** includes the statistical annexes including the full set of league tables, the sensitivity analysis, the parameters for the model, the record of the validation process and meetings by team and one page summaries of the risk / impact profiles, achievements and challenges by team.

## TRACKING FLAGSHIP ACHIEVEMENTS

**The Annual Assessment of progress against the Rolling 5-Year Fiscal Performance Improvement Plan (FPIP) was conducted from 26 November until 18 December 2016.** Teams conducted a self-assessment of progress against 2016 activities from their 5 year plans. These self-assessments were then subjected to an independent validation process facilitated by the Performance Management Team (PMT) in the Macro-Fiscal Performance Department (MFPD) in the Ministry of Finance (MOF).

**Figure 3. The 2016 – 17 Performance Management Cycle**



**This report completes the first full annual cycle for team-based performance management.** Good progress has been made in establishing a performance culture and systems to manage the performance of teams in the pursuit of better government performance and reductions in fiduciary and development risks. The system remains fragile and vulnerable to threats. It will take at least two more cycles to embed the system and make it more resilient.

**There have been some very good achievements in 2016<sup>4</sup>** with some of them laying the foundations for how the budget is formulated and executed in the future. The National Unity Government’s strategic framework for fiscal performance improvement is expressed through the team level 5 year rolling plans. These are formulated using a mix of context specific outcomes and international benchmarks including the Public Expenditure and Financial Accountability framework (PEFA<sup>5</sup>), Open Budget Initiative (OBI<sup>6</sup>), the Tax Administration Diagnostic Assessment Tool (TADAT<sup>7</sup>) and a number of other specific standards for accounting and audit. Many of these benchmarks are now explicit in agreements with key donors including the National Development Partnership with the United States and the State Building Contract with the European Union.

**A summary of the status of all flagship reforms being pursued by each team** is provided at Table 6 on page 9 at the end of this section.

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<sup>4</sup> See **Volume II: Attachment F** for detailed tracking of progress against team-level 5 year rolling plans.

<sup>5</sup> PEFA is a methodology for assessing public financial management performance. It uses a grading system (D to A) to measure system performance. PEFA is a partnership program, involving seven (7) international partners: EC, IMF, the World Bank, France, Norway, Switzerland, and UK. Financing levels are not disclosed.

<sup>6</sup> OBI is part of the International Budget Partnership. Two major donors provide 45% of all funding (\$29m) since 2013: DFID at 27% (\$7.9m) and the Bill and Melinda Gates Foundation at 17% (\$5m).

<sup>7</sup> TADAT is designed to provide an objective assessment key components of a country’s system of tax administration. It is a collaborative effort of nine (9) international partners: European Union, IMF, World Bank, Germany, Japan, Netherlands, Norway, Switzerland and the United Kingdom. Financing levels are not disclosed.

## *Policy*

**The successful development of Afghanistan's first National framework explicitly on Peace and Development (ANPDF)** that was presented to the international community in Brussels in October 2016 was a very significant achievement. The ANPDF for the first time combines an economic and fiscal framework with a clear development agenda based around the Government's Budget, and was a product of collaboration between a number of parts of the Ministry of Finance, the Presidential Palace and other national ministries. The Macro-Fiscal Performance Department established a medium term economic and fiscal framework that sets out the economic drivers and fiscal parameters over the next 4 years. The Policy Department then coordinated other departments to bring together a narrative around the national priorities that would be addressed through a reformed national budget process.

**The ANPDF was presented to Afghanistan's Development Partners at the Brussels Conference in October 2016** where the international community committed to around \$15.2 billion over four years (2017-2020) to support Afghanistan's ongoing development needs. The next step is to use the ANPDF to drive the national budget towards investments that reflect the national priorities and deliver improved services to the Afghan people.

**The Citizen's Charter, a National Priority Program completed this year,** will provide \$630 million or Afs42 billion to local Community Development Councils for them to spend on local infrastructure and services as well as make investments in urban communities.

**The scale of the Citizen's Charter Program is ambitious.** It aims to:

- Bring benefits to 8.5 million people in first phase;
- Provide 3.4 million people access to clean drinking water;
- Deliver improvements in the quality of public services;
- Increase the satisfaction and trust citizens have in their government; and
- Secure a 35% return on investment from infrastructure projects.

**In addition, the government has made significant progress on development of the National Infrastructure Program and the National Program for Women's Empowerment.** The MOF has played a significant role in the coordination and facilitation of these national priority programs.

**The High Economic Council (HEC) is meeting regularly** and is supported by a secretariat in the Macro-Fiscal Performance Department (MFPD). Decisions are tracked and significant progress has been made in promoting cross regional investment.

## *Budget Formulation*

**The budget process for 2017 included the first steps towards development of forward estimates to give practical meaning to the fiscal framework.** Introducing a medium-term expenditure framework that focuses on how much fiscal space is available over the medium-term for the Government to invest in national priorities set out in the ANPDF is a crucial step in making the national budget a tool of policy for the Afghan people. This needs much more work but was a key first step towards improving fiscal discipline and securing fiscal sustainability. Credible forward estimates that separate out what is existing policy (what ministries have already been asked to deliver) and what is new policy (what needs to be funded in the future) will help to ensure that the budget is more accurate and believable, so that money follows functions, and the budget over time applies its scarce fiscal resources to Government priorities set out in the national strategy and presented to donors in Brussels.

**These reforms were only partly achieved with some good work done on familiarising the government with the concepts, but more will need to be done in 2017** to make sure this key outcome is achieved. Over-budgeting continues to overshadow what are some good gains in both revenue collection and budget execution. A medium-term expenditure framework with credible forward estimates of the costs of existing policies will make a big difference. The proposed budget for 2017 increased by 5 per cent to Afs466b from the original 2016 Budget, even though forecast budget execution performance remains under the international standard for minimum acceptable levels of 85 per cent<sup>8</sup>. The Government plans to achieve reductions in budget estimates through the mid-year review of the budget, with reforms to flow through to the following year 2018.

### *Budget Execution*

**There is a very good story on budget execution.** The estimate for actual expenditure for 2016 is around Afs370 billion or \$5.5 billion, representing a budget execution rate of 83 per cent against the original budget. This represents an increase of 16 per cent on the Afs318 billion<sup>9</sup> the government spent in 2015. This good result is partly overshadowed by the continuation of over budgeting. If this rate of increased spending can be sustained that would translate to expenditure of around Afs430 billion and an execution rate of around 92 per cent for the 2017 budget presented to the parliament in December. With some fiscal discipline and the assistance of development partners this could even be higher as the government reallocates funds from poorer performing, lower priority programs to better performing higher priorities. This should see the government reach its budget execution target for the end of 2017 and bring down a more credible budget for 2018.

### *Treasury*

**The Government's accounting system is now on its way to becoming a tool to detect and deter corruption.** The long-awaited upgrade to the Afghanistan Financial Information Management System (AFMIS) has been approved. The \$2.8 million contract will set the foundation to move from a basic transaction recording system, to a fully integrated management solution that links all parts of the public finance systems from budgets, to accounts, from payroll to personnel, from procurement to contracts, and from banking to payments.

**Line agencies will be in a position to move off their own accounting systems** and utilize a truly whole of government solution to manage ministry finances. A standard for financial systems had not been developed for the Government. The legacy AFMIS was essentially used to manually record transactions of line agency systems. This constitutes a most serious development and fiduciary risk. The move to more modern system will take time, but the first important step has been taken by the Government. Ensuring the system is developed appropriately is a key challenge moving forward, including delivering an e-Governance solution that works well for all stakeholders.

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<sup>8</sup> A Grade of C is awarded under PEFA if the original budget execution performance is above 85 per cent and below 115 per cent in two of the last three years. A grade of D – the lowest score possible, is awarded if performance is less than a C. A top score of A is awarded if budget execution performance is within +/-5 per cent of the original budget forecast in two of the last three years.

<sup>9</sup> This is significantly lower than the AFS435billion that was reported in the 1395 Budget Papers as the estimated actual expenditure for the year, indicating a 37% error rate in disclosed forecasts so near the end of the year.

## *Procurement*

**The National Procurement Authority (NPA) has made outstanding progress** in establishing a high-quality institution with a strong performance culture. This has enabled them to carry forward the President's vision for improving procurement across the Government. Better use of competition and robust oversight and monitoring systems has led to significant savings to the budget of around Afs18 billion or \$270 million. New systems administered by all agencies will result in much better value for money for the Government in the future. NPA have set up systems to blacklist companies that are non-compliant or who present false information, with 90 cases of companies being barred from government tenders with the details sent on to the Attorney General's Office for follow up. In addition, the NPA has established a register of interests to make sure that the ownership of a company that bids for government contracts is clear. Work has been done to establish a robust system to reform the way thresholds for government procurement are set, with ministries given thresholds based on an assessment of risk and on past performance. This system will begin collecting actual performance data in 2017 and go into operation in 2018. This is a world leading initiative.

**The NPA also leads the Government in transparency and accountability.** Their website provides information on all systems and recently added a procurement tracking feature that allows real time access via the NPA website to track the progress of all procurement processes. Turnaround times for processing submissions are under the NPA's self-imposed service standard of 7 days. There has been no submission that has breached the 28-day time period set by the law.

**The NPA has also been instrumental in Afghanistan achieving membership of the Open Government Partnership (OGP).** This was a commitment made by the Government at the Anti-Corruption Summit in London in 2015. In early 2015, Afghanistan was not eligible for OGP because: i) audit reports were not being published; ii) access to information by the public was not covered by law; and iii) citizen engagement was insufficient. The government has since made progress in publishing audit reports and promulgating the access to information law. As a result, Afghanistan has gone from a 56 percent score against the eligibility criteria to 88 per cent, which is well over the eligibility threshold for membership of 75 per cent. This is a major achievement and brings Afghanistan to equal 4<sup>th</sup> out of 194 countries being tracked against the eligibility criteria. Afghanistan is equal in score with Russia, France, India and Spain.

## *Revenue*

**The Customs and Revenue Departments are at the frontline of the reform agenda.** Growing a sustainable domestic revenue base is fundamental to the long-term prospects of Afghanistan as a country. The international community have agreed to continue to support Afghanistan for another 4 years, but international assistance will inevitably fall, and Afghanistan must stand on its own.

**The Afghanistan Revenue Department is delivering on its mandate – with Tax revenue collection up by 11 percent** from the previous year (YoY) – with pro-rata forecast of actual tax collections at Afs92 billion at the end of the third quarter. Non-tax revenue is up 70 percent YoY with pro-rata forecast of actual collection of Afs44 billion up from Afs33 billion (see Table 5 below). Excluding custom revenues, this equates to an overall increase in tax and non-tax revenue compared to 1394 of 25 percent (Afs35 billion). Tax and Non-tax revenue is forecasted to increase again next year to Afs114 billion, up 13 percent from Afs107 billion (excluding

customs)<sup>10</sup>. This increase is possible through a combination of changes to some key taxes, like the BRT, changes to the Income Tax Law (ITL) and introduction of the Tax Administration Law (TAL) as well as some hard work. The introduction of the TAL has meant that the powers of ARD and the responsibilities of tax payers are much clearer. Arrears have been cleared through a negotiated process and the tax information management system SIGTAS has been rolled out to all offices in Kabul and 6 additional provinces. The full roll out is now planned for the next few years.

**Table 5. 3rd Quarter Revenue Generation Performance and the Budget**

Revenue Items	1394	1395	1395	1395	Difference		1395	1396	Change	
	Month 9 YTD		Original Budget	YTD pro-rata	from pro rata	from 1395	Est. Act.	Budget	Est Act	1395-6 Bud
<b>Total Revenues Excl. Grants</b>	<b>81,342</b>	<b>101,916</b>	<b>133,203</b>	<b>99,902</b>	2%	25%	<b>135,888</b>	<b>150,838</b>	<b>11.0%</b>	<b>13.2%</b>
<b>Tax Revenues</b>	<b>61,844</b>	<b>68,679</b>	<b>101,735</b>	<b>76,301</b>	-10%	11%	91,572	<b>116,490</b>	<b>27.2%</b>	<b>14.5%</b>
Sales Taxes	13,493	19,613	24,042	18,032	9%	45%	26,150	27,529	5.3%	14.5%
Income Taxes	14,754	17,001	24,917	18,688	-9%	15%	22,667	28,531	25.9%	14.5%
Fixed Taxes	7,562	7,430	13,040	9,780	-24%	-2%	9,907	14,931	50.7%	14.5%
Other Taxes	2,877	3,224	6,752	5,064	-36%	12%	4,299	7,731	79.8%	14.5%
Property Taxes	626	301	843	632	-52%	-52%	401	965	140.6%	14.5%
Customs	22,532	21,111	32,141	24,106	-12%	-6%	28,148	36,803	30.7%	14.5%
<b>Non-Tax Revenue</b>	<b>19,498</b>	<b>33,237</b>	<b>31,468</b>	<b>23,601</b>	<b>41%</b>	<b>70%</b>	<b>44,316</b>	<b>34,348</b>	<b>-22.5%</b>	<b>9.2%</b>
Administrative Fees	9,383	17,206	13,798	10,348	66%	83%	22,942	15,799	-31.1%	14.5%
Misc. Rev (incl. other dom)	1,708	5,571	2,866	2,149	159%	226%	7,428	1,597	-78.5%	-44.3%
Sales of Goods and Services	2,481	4,351	6,287	4,715	-8%	75%	5,802	7,199	24.1%	14.5%
Social Contributions	3,100	3,189	4,311	3,234	-1%	3%	4,253	4,937	16.1%	14.5%
Capital Property	1,670	1,282	1,860	1,395	-8%	-23%	1,710	2,130	24.6%	14.5%
Fines and Penalties	599	820	911	683	20%	37%	1,094	1,043	-4.6%	14.5%
Extractive Industry	432	683	880	660	3%	58%	910	1,008	10.7%	14.5%
Royalties	124	134	555	416	-68%	8%	179	635	255.0%	14.5%

Source: 3<sup>rd</sup> Quarter Fiscal Bulletin. Currency is AFS.

**The MOF has also renegotiated the terms of the Value-Added Tax (VAT) to make it more sustainable.** Changes include the increase of the rate from 5% to 10%, a reduction in the turnover threshold from Afs200 million to Afs150 million, a clarification that the exemption to the tax for transport will be only for land transport, not sea or air transport and a firm date for introduction of the tax in 2019. Securing a sustainable amount of domestic revenue is a precondition for the sustainability of Afghanistan and for donor partners to begin withdrawing. These changes to the VAT will lay a foundation for the future of the tax system and this is a major achievement.

**Efforts to reduce corruption have been introduced,** including the use of service booths, installation of cameras in customer service areas and targeted code of conduct training. The combination of good management and improved systems has led to fewer opportunities for tax officials to meet their clients, face to face without some level of oversight. There is a long way to go but the signs are there that things are improving. ARD are also in the last stages of completing a TADAT assessment which will help guide their 5 year plans from early 2017 onwards.

**The Afghanistan Customs Department (ACD) have been undergoing a major shift in the culture of the department.** Under the leadership of the DG and some key new Directors, ACD is moving to a performance and enforcement culture to replace the previous shadow of corruption. Key measures have meant that ACD have been able to double revenue from mobile

<sup>10</sup> Though the increased revenue forecast was a based on a blanket 14.5 percent increase to the 1395 Budget forecasts, rather than on actual revenue collections, calculations of the fiscal impact of new revenue raising policies, and/or macroeconomic forecasts that drive tax collections.

collection units, though as at 3<sup>rd</sup> quarter ACD were slightly under their revenue targets (12 percent), with a 6 percent forecast drop against actual collections in 2016 (see Table 5 above). The roll out of the Customs information management system (ASYCUDA) to more provinces is on track with increased surveillance at major crossings in the form of new digital weigh bridges and vehicle logbooks. There is stronger tracking and monitoring of containers entering Afghanistan through the establishment of the Container Control program.

## Operations

**The Ministry of Finance has invested a significant amount in establishing an IT backbone.** This has been an area of huge under-investment, but good progress is being made. The contract to establish major IT infrastructure is about to be let, with the main part of the work being finished by the middle of 2017. This will allow the MOF to build for the first time in its history a solid IT platform across all its offices in Kabul and the provinces. Work has already commenced in improving access to and speeds of internet across the MOF. By changing suppliers, the IT team have increased speeds significantly and reduced the costs from \$1000 to \$55 for improved data services. A new phone system is being installed connecting all offices and standard MOF emails are now being issued to all staff. These improvements in basic business processes will have a huge impact on the productivity of the MOF as a whole.

**The policy to move staff onto the CBR program is progressing with most teams now having revised tashkeel structures approved** and processes to move staff onto CBR underway. The Minister also initiated a 7% reduction in the total number of tashkeel positions in the MOF which has been completed in 2016. In addition, the MOF has closed several long running programs including the UNDP supported Making Budgets Work, and the UK supported SABII. This has led to a process of making a large number of contractors into civil servants or contracted directly by the government as national technical assistance (NTA) at rates prescribed by the Government. This process needs a lot more work to achieve the goal of self-reliance, but is a promising start.

**Table 6. Status of Flagship Reforms for 2016 by Directorate General**

DG	Flagship Reforms	Status
1.0 Office of the Minister	<ol style="list-style-type: none"> <li>1. <b>Electronic archiving</b></li> <li>2. More <b>effective management through the leadership group</b></li> <li>3. Establishment of a <b>Legal Board</b></li> </ol>	<p><b>Electronic archiving</b> at MOF is being done in a fast and efficient way. It is being extended into some offices outside the main building.</p> <p>The Leadership Group at the MOF have only met twice this year, but did <b>meet to consider the outcomes</b> of the mid-year performance assessment.</p> <p>The legal board is in place with 2 legal staff and recruitment for 2 more lawyers is well advanced. This has led to better representation by MOF on legislative committees and more consideration of the financial implications of legislation.</p>
2.0 Customs Department	<ol style="list-style-type: none"> <li>1. <b>Comprehensive program</b> of legislative, system and administrative reforms.</li> <li>2. Targeting key corruption areas including: valuations, clearance times,</li> </ol>	<p>The roll out of ASYCUDA is progressing including at Kabul Airport. <b>Internet access remains a constraint.</b> <b>Mobile Verification Teams procedures reviewed for control of imported and exported goods.</b> New procedures introduced and personnel changed. Reports</p>

DG	Flagship Reforms	Status
	<p><b>reconciliation</b> of assessments, payments and transfers, and <b>customs debt collection</b> performance</p>	<p>show almost every team has improved 100 %. There has been a full <b>transition of customs police from Ministry of Interior (Mol) to MOF</b> with 618 staff moving to MOF. <b>Space for the new police in ACD</b> is a constraint.</p> <p>A month <b>training delivered to staff through ANCA on general customs</b> (up to 200 people).</p>
<p><b>3.0 Revenues Department</b></p>	<p>1. <b>Comprehensive program</b> of legislative, system and administrative reforms. 2. Targeting key corruption areas including <b>reconciliation</b> of tax assessments, payments and transfers, and <b>debt collection</b> performance.</p> <p><b>Other key work programs:</b> i) SIGTAS development; ii) integration of an anti-corruption strategy including developing systems to mitigate risk of inappropriate relationships between tax assessor and tax payer; iii) developing a fair appeals system; iv) tax legislation strengthening program; v) developing options for broadening of the tax base - VAT redesigned for implementation in 2019.</p>	<p>The <b>Income Tax Law amendments drafted</b> and the <b>implementation manual for the Tax Administration Law</b> finalised. <b>Tax Law Amendment</b> enshrining <b>WTO requirements</b> approved and promulgated (effective 2019).</p> <p>A <b>tax arrears report</b> and tax reconciliation report on assessments, payments, collections and transfers produced with good progress in automating tax arrears reporting and tax reconciliation. Target of <b>20% of all STO cases</b> audited achieved and improved the quality of audit. Revenue collected so far is <b>Afs220m from a 6-month target of Afs163m</b>.</p> <p>Good progress on <b>promoting the Appeals process</b>, a workshop for NGOs held in the ACBAR office, also recorded a TV advertisement <b>informing taxpayers of their rights</b>.</p> <p>3. Have improved <b>connectivity to 8 provinces this year</b> and are seeking approval to connect 17 more. <b>Resources for training and equipment, as well as internet access remain challenges</b>.</p>
<p><b>4.0 Treasury Department</b></p>	<p><b>Web-based AFMIS (a COTS system) with much more powerful functions</b> - improved reach, purchasing, commitment controls and contract management systems, Zero-balance sweeping, <b>Sub-Accounts</b> trials, Stronger payroll controls and linkages with HR systems.</p>	<p>Treasury has <b>rolled out AFMIS to 9 municipalities</b>, which will result in less discretion and better accountability.</p> <p>Good progress made on <b>testing of a significant upgrade to AFMIS</b> introducing significant improvements to the financial management information system.</p> <p>Test phase of <b>electronic fund settlement system through DAB</b> undertaken (reducing opportunities for corruption).</p>
<p><b>5.0 Budget Department</b></p>	<p><b>Rolling Forward Estimates</b> for Policy Linked Budgets, Single Currency, Integrated Budget, <b>Piloting new systems commitment control systems within MOF</b> (allotments). Program budgeting s.t. setting these pre-conditions.</p>	<p>Progress on these important reforms has been lower than expected at the mid-year assessment: i) <b>Agreement with Treasury on moving budget controlled allotment system</b> to Treasury under standard commitment control system was not followed through; and ii) An excellent start on <b>developing the forward estimates system was made in the first half of the year</b>, with good cross-team collaboration</p>

DG	Flagship Reforms	Status
		making real progress towards high global standards for policy linked budgeting. <b>This was not followed through in the budget process and will need to be done for the 1397 budget.</b>
6.0 Admin Department	Work program to deliver <b>better budgeting, accounting, procurement and IT services</b> to MOF.	Some progress made. A <b>large investment in IT</b> approved and progressing but <b>more resources needed for HR, budget and finance.</b>
	<b>DG level budgets in 2017. Single IT network</b> and website, and secure email.	Internal budgets allocated by Directorate, but <b>plans for an improved internal budget process for the MOF are at risk.</b>
7.0 SOE Department	Will be assessing <b>fiscal risk</b> posed by SoEs and SoCs and taking on new <b>supervision function of state-owned Banks (fiscal risk only)</b>	A new <b>draft Law for SoEs and SoCs is under consideration.</b> Some work on governance and oversight of SOEs and SOCs has been done to move some functions to the COM, but there <b>needs to be more progress on monitoring fiscal risks</b> and training staff.
8.0 Property Department	Solid program to continually <b>double revenue over three years.</b> Dealing with the problems of former Banks (Agricultural, Industrial, Mortgage and Construction Banks) -	<b>Revenue is ahead of targets</b> due to a concerted effort from all departments. <b>New DG appointed</b> and developing a new plan. <b>More political support and resources are required</b> if progress is to continue.
9.0 Human Resources Department	Exploring <b>PFM competency testing. Merit based devolved recruitment.</b> Working with Treasury to <b>pilot new systems for HR and Payroll controls.</b>	Progress made on <b>restructuring the MOF and streamlining processes for recruitment</b> including through CBR. Merit based selection is the policy but <b>requires significant political support.</b> <b>7% reduction in MOF staff implemented and recruitment of female staff is ahead of targets.</b> There <b>needs to be more investment</b> in systems, particularly connecting payroll, HR and Treasury.
10.0 Insurance Department	Seeking to develop <b>Islamic insurance and micro-insurance</b>	<b>Supervision</b> of the industry has been <b>satisfactory.</b> Progress on new regulations for <b>Islamic and micro-insurance is at risk</b> if resources are not committed.
11.0 Internal Audit Department	Implementation of <b>IIA Standards.</b> Risk based auditing and introduction of follow-up procedures.	There is a new fraud investigation system in place. <b>Good progress on number of fraud investigations,</b> there are 77 fraud investigations in progress, 30 completed and 117 in the courts or AGs.  <b>Challenge to meet IIA standards</b> due to <b>Audit Committee failing to meet</b> to approve the plan.
12.0 Programs Implementation and Coordination General Directorate	<b>Secretariat</b> to the Development Councils - rules and procedures	<b>Outstanding work to complete the ANPDF and to present it to the international community in Brussels.</b> Some development Councils such as the <b>HEC are operating</b> but there are still some <b>challenges in clarifying the various</b>

DG	Flagship Reforms	Status
		responsibilities and getting councils to meet regularly. SOPs are still under development.
13.0 Monitoring, Analysis and Reporting General Directorate	Monitoring and reporting on national programs.	Reporting on SMAF and to JCMB monthly and quarterly done. Reporting on NPPs under the ANPDF and the revised SMAF will commence after Brussels.
14.0 RIMU	Servicing the World Bank - <b>Structural issues to be reviewed</b> including with Admin PIU	Support provided to the PFMR11 project and to the HRD team with training of around 1200 MOF staff. Budget execution remains an issue for this project with most of the money “spent” in the last quarter of the year with overly optimistic procurement planning. Work on better budget preparation is needed. Team also assisted with the MOF 100 days’ plan and monitoring its implementation. Some duplication in the 5 year plans and the annual planning process required by the AOP. Challenge is to phase out what is essentially a World Bank PIU in accordance with government policy.
15.0 Revenue Planning Department	Improving revenue forecasting enabling provincial level targets. <b>Surveys of total tax payers.</b>	Basic reporting of revenue against plans done but little work done to improve how targets are set. A proposal to reassign these functions to other departments needs a decision as soon as possible.
16.0 Macro-Fiscal Performance Department	Working with Budget and the policy linked budgeting. <b>Rolling Forward Estimates, New Policy focus and Fiscal Space, New Performance Management System inaugurated and deployed</b>	An excellent start on developing the forward estimates system, with good cross-team collaboration making good progress toward high global standards for policy linked budgeting. Did not make it into the 1396 Budget papers and will need renewed focus next year. Successful completion of SMP and successful negotiation of ECF founded on new principles of engagement. Established a secretariat to the HEC. Finalized launch of the Inaugural Rolling 5-year Fiscal Performance Improvement plan and the completed the first mid-year assessment of progress against 5 year plans and the first annual assessment.
17.1 ADM: Aid Management	Working with Donors, MFPD, Budget and Treasury to deliver timely and quality consolidated budgets and accounts	New Aid Management Policy developed in line with the government’s self-reliance and consolidated budget policy. The AMP discourages the use of PIUs and encourages use of national systems. Coordination with policy and budget areas remains a challenge.

DG	Flagship Reforms	Status
<p><b>18.1 NPA: National Procurement Authority</b></p>	<p>Comprehensive reform taking on the big issues. Medium term <b>plan to decentralize. E-Procurement including contract management</b> (working with Treasury)</p>	<p>Outstanding progress on procurement, including passing a new law, new procedures for performance linked devolvement of procurement to line ministries, clearing of the procurement backlog while making savings of Afs18.3 billion. NPA has created a comprehensive online Contract Progress Monitoring Mechanism- CIMS, and an online Tracking Mechanism for projects under procurement facilitation – PFTS. Extensive strategic communication and public outreach has been delivered. Instrumental in the Government achieving membership of the Open Government Partnership, a key commitment at the London Conference on Anti-Corruption.</p>
<p><b>19.1 AEITI Secretariat</b></p>	<p>Working with government agencies to help revealed weakness in revenue and contract management – helping to close loopholes including <b>closing revenue leakages of c\$1 b pa.</b></p>	<p>The EITI mechanism is working well to detect and triangulate data to find potential leakages. Backlog of reports cleared. Quality of reports have improved. Recognized by EITI Secretariat. Website is highly professional and provides up to date information on activities of AEITI including strategies, annual reports, outreach visits and minutes of meetings.</p>

## KEY CHALLENGES

**While much has been achieved, there are many challenges.**

### Budget Process

**The assessment found that reforms reported in the mid-year assessment on a reformed budget process have not been achieved.** The original intention of the 5 year plans covering the budget process was to establish a budget cycle that would support improved fiscal discipline and begin to channel funds to national priorities where they are needed. The key steps are: i) improving the economic and fiscal forecasts; ii) consolidating the budget and accounts under one currency and one robust classification and accounting system; iii) producing a medium term fiscal framework that sets out the fiscal space available to the Government; iv) begin work on forward estimates that separate existing and new policy; and v) creating a medium-term expenditure framework based on the fiscal outlook and fiscal space estimates.

**Once these are in place the Government needs a more disciplined budget process to deliver a more believable budget, improved allocation of investment to high priority national programs and increased budget execution performance.** Revenue forecasts reported in the budget papers need to be based on the fiscal impact of new revenue policies and the impact of changes in macroeconomic parameters – rather than a “target” to increase all tax and non-tax revenue items by 14.5 percent, which occurred again in the 1396 budget (see Table 5 above on page 8). There were some promising signs in the middle of the year that the process was ahead of plans, but in the end, the 1396 budget was done in the same way it has been for many years with little or no change.

**The 2017 Budget still suffers from long standing systemic problems.** The very basics of a good budget are not present. A few examples. The total cost of personnel (tashkeel, long-term national advisers, consultants, temporary staff etc.) is not provided because the development and operating budget is severely fragmented. This increases the risk of a wage bill blow out and unsustainable size of the public work force. The amount of funds flowing to the provinces in different dimensions including new policies is not disclosed or reported against actuals, making the budget much less relevant for the majority of the population. The level of proposed spending on construction of new buildings is not disclosed, facilitating poor contracting practices. Budgets are disclosed generally only at the ministry level, rather than at deputy or director general level, making it difficult to hold any person or team properly accountable for their budgetary performance, and thereby increasing the risk of an excess of non-productive slush funds and/or a misallocation of resources for unintended purposes. The budget is still not easily comparable to end-of-year financial statements, making it difficult for anyone to compare government’s annual promises made in the budget with the government annual results, expressed in an annual report.

**Despite the High Economic Council providing some guidance around an emerging new system, Budget Committee presented a budget that was not realistic** and had to be cut back in consultation with the Minister for Finance and the President at the last moment. The budget presented to Parliament was still not realistic based on actual expenditure and would still see the government struggle to meet its budget execution target in 1396. This is despite a significant effort to improve actual spending in 1395 which has increased by around 16 per cent year on year based on current projections.

**The automatic carry forward of underspends in programs from one year to the next is largely driving this endemic over-budgeting problem.** It has been the practice to carry forward all estimates of program commitments from one year to the next – sometimes against a percentage-based rule included in the Budget Manual. In 1395, this was just under Afs65 billion or \$0.97 billion and in 1396 it will be around Afs78 billion or \$1.17 billion. In the view of the independent validation team this is inconsistent with Article 50 of the Public Finance and Expenditure Management Law and is certainly poor practice against international standards<sup>11</sup>. The source of the problem appears to be the misapplication of allotment procedures meant for non-lapsing (or multi-year) obligation-based appropriation systems, that are used in only a few countries around the world (United States, Micronesia, the Philippines and certain IFIs), rather than the standard commitment controls used in annual lapsing appropriation systems, which is the most common system used by most governments around the world.

**A related problem is the continued use of allotments as a tool for budget management.** There were some signs that an agreement had been reached between relevant DGs in the middle of the year to abolish this function and instead establish a more robust commitment control process managed by line ministries and the Treasury Department. This is more in line with good international practice and will speed up budget execution at the start of the year. At the same time allowing the Budget Department to concentrate on costing existing and new policy and monitoring performance during the year, their core functions, rather than approving allotments, contracts and invoices linked to carryovers. By the time of the annual assessment no progress has been made and the Budget Department have indicated they do not agree to the proposed changes. This issue needs to be resolved urgently as it constitutes a serious fiduciary and development risk.

### *Leadership*

**More progress in establishing an effective management team within the MOF is required to drive reforms.** The MOF has two acting Deputy Ministers (Policy and Administration) and the leadership group of the Minister, Deputy Ministers and Director Generals does not meet regularly. Decisions tend to be made in an ad hoc fashion and staff are not always clear on decisions about issues that affect them. Written records of decisions and consistent distribution to managers both need significant work. Participation by DGs in the process was variable. There are some very encouraging signs of leadership from a few DGs (Revenue and Customs in particular) but still not enough participation by most DGs. Directors have generally been very engaged in the assessment process and knowledge and understanding of both their plans and the performance management system has increased considerably. More participation by staff in the assessment process is needed. The gap between the strong engagement by teams and the lack of engagement by the senior leadership is concerning and will need to change if the fiscal reform program is to achieve its goals.

### *Ownership and Clarity of Reform Plans*

**As already noted, ownership of the plans has improved significantly in most teams, but there is some way to go.** Directors have generally been engaged but they often delegate the assessment to one member of staff, often a technical adviser or contractor. Participation by all team members is still too low. Only a few teams had high participation in the discussion with notable examples being the Communications Team, the Internal Audit Team, the Treasury

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<sup>11</sup> See the [2009 IMF Technical Guidance Note on Carry-Over of Budget Authority](#)

Team and virtually all of the ARD and Customs Teams. The issue also relates to the PMT communication team, as it has not been clarified to the departments for having the whole of the team in the assessment missions. The real value of the performance management system and the rolling 5 year plans is the extent to which the teams discuss the reform process and people understand the activities they need to complete to achieve their goals.

**Reforms plans need to be focused and on the right track.** Most teams are now well prepared for revisions and updates to their plans when they are rolled over in early 1396 / 2017. The more focus the teams put onto the rollover of their plans using aspirational international benchmarks as their guide, the better they will reflect the reform priorities and the greater value the teams will get from the performance management system and the assessment process. The quality and credibility of the plans is a key determinant of success for the Government in achieving its overall fiscal performance improvement goals.

### *External Support and Progress with Donors*

**Discussions with donors are progressing, but will not be concluded until the middle of 2017 at the earliest.** The main partner will be the World Bank who have indicated that they will support the whole Fiscal Reform Program, across all activities in the 5 year plans, but they have also indicated they will not link funding to the performance outcomes to fund the specific gaps identified by the teams. This is likely to undermine the process as the assessments and the performance outcomes will not lead to resource allocations. Teams will still have to respond to a separate set of World Bank indicators.

**Table 7. ARTF Disbursement Performance Indicators**

Projects	Disbursement Execution Rate Multiple - Required Improvement in Current Average Annual Disbursement Rate to Close on Time with Zero Balance
CASA-1000 Community Support Project - TF017012	n/a Zero Disbursement
Afghanistan Agricultural Inputs Project - TF015003	6.1
Irrigation Restoration and Development Project - TF012029	4.5
Second Education Quality Improvement Project - TF093962	4.4
Non Formal Approach to Training, Education and Jobs in Afgha - TF016354	4.3
Capacity Building for Results Facility Project (CBR) - TF011447	3.9
Justice Service Delivery Project - TF012533	3.4
Second Public Financial Management Reform Project - TF010024	3.3
National Horticulture and Livestock Project - TF013820	3.2
Power System Development Project - TF093513	3.1
Kabul Municipal Development Program (KMDP) - TF017016	2.2
On-Farm Water Management Project (OFWM) - TF099074	2.1
Afghanistan Nughlu Hydropower Rehabilitation Project	1.7
Kabul Urban Transport Efficiency Improvement Project (KUTEI) - TF017061	1.7
Afghanistan Rural Access Project (ARAP) - TF013093	1.4
Higher Education Development Project - TF0A0730	1.1
System Enhancement for Health in Transition Project (SEHAT) - TF015005	0.7
Afghanistan DABS Planning and Capacity Support Project	0.7
Afghanistan Resource Corridors Project - TF014845	0.6
Third Emergency National Solidarity Project - TF098459	0.3

Source: 1395 UPDATE TO THE FINANCING STRATEGY Endorsed March 6, 2017. See Attachment I in Volume II for more details.  
 Nb: Required improvement means, the multiple of the existing average annual disbursement rate. In other words, for the Afghanistan Agricultural Inputs Project, disbursement rate has to improve by six (6) times existing disbursement rates in order for the project to close on time with a zero balance. Any multiples of 1.5 or higher, indicate that the project may likely be extended or close with significant levels of unspent money. It may also indicate a project review is warranted.

**PFMR2, an ARTF financed technical assistance program, will be the primary support mechanism for certain MOF teams in 2017** – Treasury, Budget and Internal Audit. It is also the primary support mechanism for the Supreme Audit Office and NPA. PFMR2 originally provided \$73 million, which was to be spent between 9 August 2011 and 31 December 2014. By the end of 2014, 68 percent had been disbursed. After an extension, an additional \$41m was provided at the beginning of 2016 through to June 2017. The World Bank and the Budget Department have forecast in the Budget Papers that PFMR2 will spend the remaining \$38m before the project is due to close in June 2017. This level of disbursement performance is consistent most ARTF projects (see Table 7 above). The Government and the World Bank are currently negotiating the follow-up program to the PFMR2, which is envisaged to support the FPIP.

**Efforts to fill gaps early in 2017 and to provide support to all teams have so far not been put in place for the start of 2017.** The President announced up to \$20 million from the budget in August 2016, but by the time of the Annual Assessment discussions are ongoing as to what the provision should be and how to support the teams under the 5-year plans. The Independent Validation Team continues to advise that there needs to be some provision in the 2017 Budget for gaps in the 5 year plans to cover at least some proportion of the needs for all teams. This will need to be at a minimum \$10 million, but could be up to \$20 million. In order to execute this support, the MOF should engage a contractor / agent to assist the Finance and Performance teams specifically and help fill the gaps of teams that have low levels of existing support and capacity. As of mid-January 2017, the budget contains a provision for \$1 million to support the FPIP with some teams still receiving support from the World Bank and USAID, but most without support.

**If this is not possible then assistance will only be for teams with existing support,** including ARD, Customs, Treasury, Budget, Internal Audit and NPA, but excluding most teams. This will limit progress in achieving reforms. PFMR2 cannot be used to provide support to all MOF teams as it is limited to the themes set out in the project's original scope (procurement, treasury, HR, accounting profession, internal and external audit, and monitoring and evaluation).

### *More Investment and a Bigger Vision for Revenue and Customs*

**The revenue and customs departments need much bigger vision and a massive increase in investment.** Despite their size and complexity, both have just one DG. There is no dedicated HR, IT, procurement or operations function for either department. These are crucial departments for the Government in achieving self-reliance and treating them in the same way as other DGs is a not going to work. A long-term strategic plan to expand both departments is required as soon as possible. An initial costing for both Revenue and Customs based on their 5 year rolling plans in 2016 is around \$60 million over the next 5 years without major capital expenditure which would be additional. This figure will need to be updated for the new rolling plans in 2017.

### *Reporting*

**Reporting on fiscal performance remains weak.** Many of the achievements described above will lay the foundations for a better and more robust public finance system. This needs to be matched with improved accountability and reporting. It is still difficult to compare actual budget outcomes at the end of the year to budget projections at the start of the year. Budgets are in different currencies and using different classification systems, making it very difficult to assess the budget as a whole. For example, it is still nearly impossible to identify the full cost of employees and consultants in the budget statements. If there is to be meaningful improvement in reporting performance information on the budget, fragmentation, especially in budgeting,

accounting and reporting, must be addressed. This will be vital to drive better allocation of funds to high priority and high performing programs.

**All the Fiscal Reform Program documents are now available on the MOF website in English with translations being done for Dari and Pashto.** This is a very positive step forward but needs to be maintained with the Mid-Year and Annual Assessments routinely published in English, Dari and Pashto.

### *Corporate Backbone*

**The corporate backbone of the Ministry of Finance remains gravely weak** and cannot properly support the operations of departments. A very large and sustained investment in the backbone of the Ministry – HR, IT, procurement, finance, accounting, operations and maintenance – is required. Real professional development is almost non-existent across the Ministry. The MOF needs to put in place a comprehensive internal budget process for the 1397 budget and in 1396 needs at the very minimum to allocate resources to support the finance and procurement teams. Construction and publication of DG level budgets in a Portfolio Budget Statement would be a very good start. Publication of program budgets for the MOF is yet to materialize, let alone reporting of actual program expenditure against original program budgets in a MOF Annual Report.

### *Systems Development*

**The ministry lacks an overall vision for the simplification and standardization of its lengthy and corruption prone business processes, non-responsive tashkeel and decision support systems** throughout the ministry at the central and provincial levels. Computerized systems have not been properly conceptualized to improve efficiency, inform and support planning and decisions, as well as thwart corruption. The current information systems being used operate in silos and lack integration. Resources and efforts are being duplicated in some cases. There is a requirement for segregation of IT support to communication and networks run by IT network experts and technicians with that of the decision support systems, business intelligence, SOPs development and computerization run by business analysts and system experts in terms of tashkeel, terms of reference, expertise and recruitment requirements.

**There is a need to consider the establishment of a systems development department** at the director level to modernize and improve MOF service delivery, maintain and develop in-house, cost effective sustainable systems. International experiences have proved that in-house development is more sustainable, easier to maintain, cost effective and customizable. The in-house systems development should be adopted as a culture in the ministry of finance. As this ministry is spending a lot of resources in maintaining and upgrading Commercial Off the Shelf (COTS) systems.

### *Institutional Capacity Development and Utilization*

**The capacity development process lacks a systematic approach.** Key competencies are not defined, needs are not properly assessed and the skills developed are not properly institutionalized and utilized. Available training is generally ad-hoc and contingent on donors, which has been unpredictable for some time. There is no follow up workshops and written report on the skills developed and the trainings conducted in order to control volatility of the capacity. The new learned skills need to be utilized in the work space and be imparted to departments and employees. For example, the Tax and Customs Academy is a fantastic facility but is currently is underutilized. The academy needs to be transformed into a Financial

Excellence Center (FEC). Competencies and syllabi need to be developed and servants trained and tested.

### *Behavior Change*

**There is a lack of strategic vision and operations directed** at changing the behaviour and conduct of staff dealing with customers or clients. Guidelines developed and periodic trainings on code of conduct and ethics need to be delivered to all new comers and existing staff in order to improve service delivery, and draw a line between the formal and informal, corrupt and non-corrupt behaviour and conduct of civil servants. SOE's and SOCs have not been revitalised after the prolonged civil strife of the last two decades. Most of the SOEs and SOCs are dysfunctional and are a burden on the national economy. These entities could be a very good sources of revenue generation and one of Afghanistan's vehicle towards self-reliance.

## RISING TO THE CHALLENGES – PROGRESS AND SETBACKS

**The teams responsible for delivering on the Fiscal Performance Improvement Plan (FPIP) are rising to the challenges.** This is the first annual assessment of progress against planned actions set out in the FPIP. Progress is above expectations. Of the 1,308 actions reported in the plan for 2016, 865 (65%) were scored. The assessment used a standard grading system (see Box 3).

**Teams are scored on the timeliness and quality of their outputs, as well as their effectiveness in solving problems.** This provides a greater depth to the performance outcomes as it provides a guide to capacity development and institutional strengthening, not just delivery of outputs. The average performance outcome across 63 teams (Directorates) and 18 Directorate-Generals<sup>12</sup> was a satisfactory improvement in performance, measured as progress against what teams said they would do and what they actually did do.

### Box 3. Grading Scores

**A:** Delivered beyond expectations.

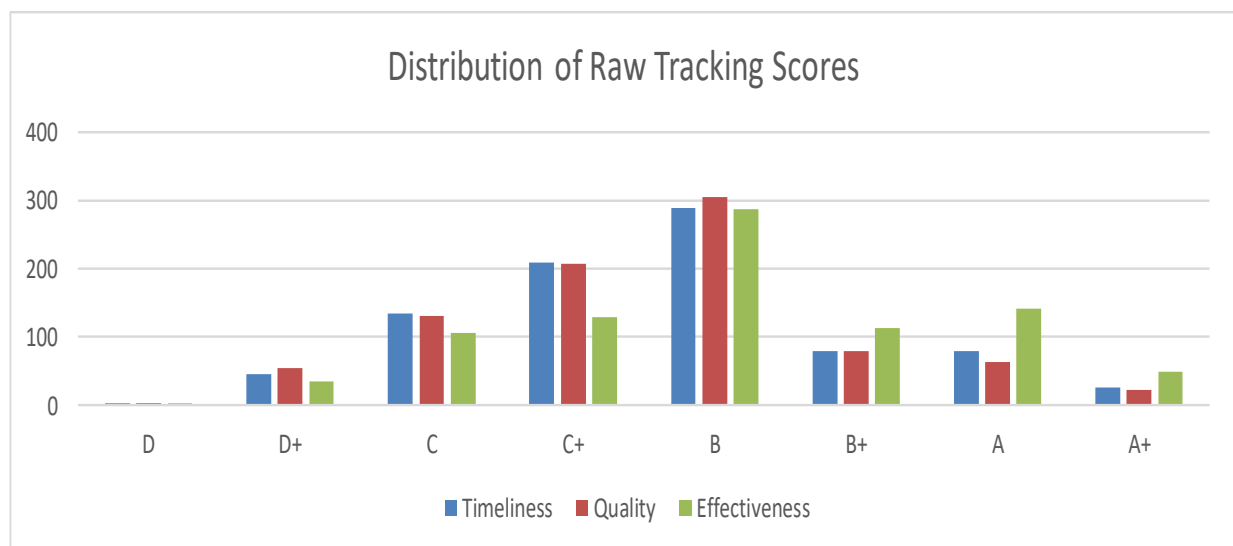
**B:** Delivered to a high standard

**C:** Delivered satisfactorily

**D:** Failed to deliver

**Most actions scored at around the “C+” or “B” level,** with 71 percent of performance scores graded as “C”, “C+” or “B”. 24 percent were at a high or better standard (B+ to A+), with just under 6 per cent considered below standard. Grades given overall followed a normal distribution (see Figure 4 and Table 8).

**Figure 4. Distribution of Raw Performance Tracking Scores**



*A total of 865 activities were scored during the annual assessment, out of the 1,308 (66%) activities that are on the Fiscal Performance Improvement (FPIP).*

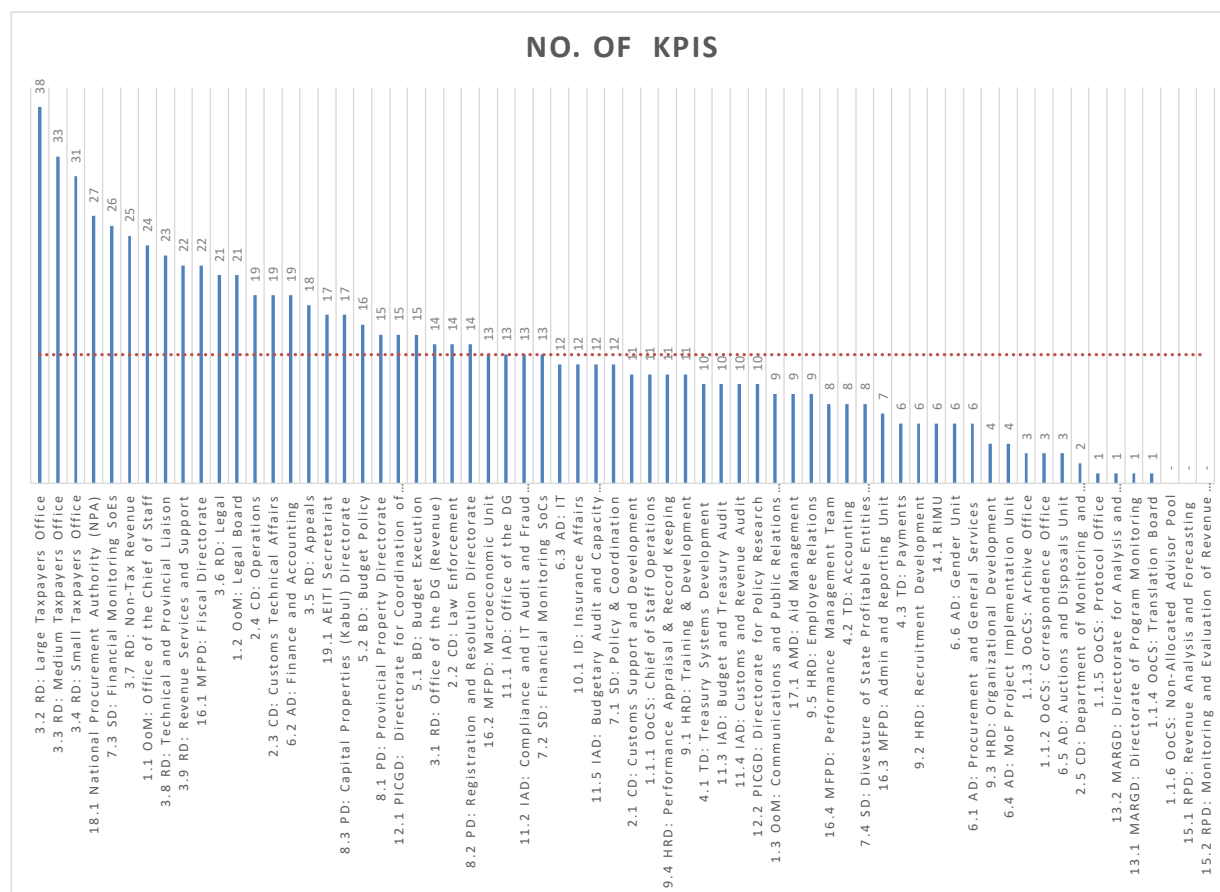
**The spread of the number of scored planned actions was not uniform.** Some teams were graded against only a few Key Performance Indicator (KPI). These included: i) Correspondence Office; ii) Archive Office; iii) Auctions and Disposals Unit; Department of Monitoring and

<sup>12</sup> Or equivalent. These are bodies that report directly to a Deputy Minister or the Minister but are not at the Director General Level (e.g. Human Resources Department).

Preventing Customs Violations; iv) Translation Board; v) Protocol Office; vi) MARGD: Directorate of Program Monitoring; vii) MARGD: Directorate for Analysis and Reporting (see Figure 5 below). Having too few KPIs leads ranking in grade tables to be very sensitive to scores. This can lead to perverse incentives, to plan for a few easy targets, if not managed by the independent validation team.

**While only at early stages, the team-based performance management system appears to be working** – and faster than expected. In the past, there was little or no quantifying of achievement of reforms. Let alone communicating results in a comprehensive assessment of performance of all teams in the MOF and partner agencies. The performance grade, impact and risk ratings for each of the 855 Action-based KPI's (A-KPI) scored in 2016 can be found in **Volume II: Attachment J: 2016 Performance Results and Comments**. See also **Volume II: Attachment K: 2016 Team Performance One Pagers**, which outlines key progress achievements in 2016 and, importantly, the key challenges moving forward.

**Figure 5. Distribution of Number of KPIs**



**Table 8. 2016 Number of Complete Scored Action-based KPIs**

Raw Scores	Performance Scores			% of Total Scored		
	Timeliness	Quality	Effectiveness	Timeliness	Quality	Effectiveness
A+	27	22	50	3.1	2.5	5.8
A	79	64	142	9.1	7.4	16.4
B+	80	79	113	9.2	9.1	13.1
B	288	304	287	33.3	35.1	33.2
C+	208	207	129	24.0	23.9	14.9
C	135	131	106	15.6	15.1	12.3
D+	45	55	35	5.2	6.4	4.0
D	3	3	3	0.3	0.3	0.3
<b>Total</b>	865	865	865	100.0	100.0	100.0

### League Tables and Top-Performers

**This section presents key league tables of performance** with a discussion on the top performing teams. This section also stresses the *“teams not themes”* narrative and presents raw and standardized/relative performance scores.

**Any good performance management system involves ranking teams.** It is not only your own team’s raw performance but also where you are compared to your peers that matters. In the case of Afghanistan, the performance management system ranks teams in league tables against each other in a variety of different ways. The purpose of the league tables is as a learning tool, not as simply a reward or punishment system.

**The performance management system provides incentives that drive reforms** in line with Government policy. For example, raw scores have weights for the three dimensions of timeliness, quality and effectiveness. Timeliness receives the lowest weighting, then quality and effectiveness receives the highest weighting. This is consistent with providing incentives for teams to solve problems and look for new ways of doing things, and to be honest about their level of performance.

**Similarly, raw scores are only one way to look at performance.** Each team when doing their plan assesses both the impact (importance) of an activity, and the risk of failure (difficulty).<sup>13</sup> They also note how much technical assistance, both national and international, is required to complete any particular activity. This allows us to adjust raw scores to take into account the impact, and the risks in each teams’ 5-year plans. High Impact / Low Risk activities should obviously be first priority but are also relatively uncommon. Low Impact / High Risk activities are obviously not optimal and should generally be avoided. That leaves the teams with a mix of High Impact / High Risk activities and Low Impact / Low Risk activities (or routine activities). This reflects the reality that the reforms you need are usually important but also difficult to achieve.

**Since some teams do almost exclusively High Impact / High Risk work, we need to show performance in a number of different ways.** Some teams have a lot of assistance while others have virtually none. We have set out a range of different ways of looking at performance and sensitivity analysis that shows how different weights in the model affect different team’s rankings in a later section.

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<sup>13</sup> See PMT, 2015, [“Implementation of The Public Financial Management Roadmap II: Achieving A Performance Culture in A Conflict Affected Afghanistan. Team-Based Performance Management of A 5 Year Rolling Fiscal Performance Improvement Plan”](#), Ministry of Finance, Kabul, Afghanistan.

## *The League Tables*

**Based on the annual assessment, the first league tables of team performance are presented** at the end of this section at Table 11 below on page 27 for directorate general level teams and Table 12 for directorate level teams. Performance outcomes presented in league tables is a simple way to show performance, improvements and challenges. Raw scores give a relative ranking of teams but scores adjusted for the impact (importance) of activities being undertaken, the risk of failure to achieve these activities (risk) and the amount of technical assistance (TA) being used give a more comprehensive view of team performance.

**The Independent Validation Team has produced seven types of league tables (performance ranking tables),** constructed using various combinations of weightings for Performance, Impact, and Risk dimensions. (See also **Volume II: Attachment C: Parameter Values** for the values of the parameters used in the baseline scenario.)

1. **Risk, Impact and TA:** The baseline scenario that takes into consideration all performance parameters. Under this scenario those with higher difficulty (risk proxy) and higher importance (impact proxy), and lower levels of Technical Assistance (TA) did better – in keeping with the “tashkeel first” agenda.
2. **Risk and Impact Only:** This scenario does not adjust for levels of Technical Assistance, meaning those teams with a lot of technical assistance will do better all other factors being equal.
3. **Performance Only:** No adjustments made for risk, impact or TA. This is a raw performance score. It uses baseline weights for timeliness (20%), quality (30%) and effectiveness (50%).
4. **Performance Only with TA:** No adjustments made for risk, impact but baseline discounts for TA applied. This is still a raw performance score. It uses baseline weights for timeliness (20%), quality (30%) and effectiveness (50%).
5. **Performance Only and equal Impact:** Performance and impact scores weighted equally and Risk and TA weights set to zero. This means that those with higher importance (impact proxy) do better on their ranking.
6. **Performance Only with TA and equal Impact:** As above with TA weights included.
7. **Performance Only and equal Risk:** Performance and impact scores weighted equally and Risk and TA weights set to zero. This means that those with higher risk (a proxy for difficulty) did better on their ranking compared to others.

A full set of league tables can be found in **Volume II: Attachment A: League Tables of Team Performance.**

**The top performers on these tables are shown in Table 9 below.** The table provides results at the Directorate General and Directorate levels.

The table reveals that the best performing Directorate Generals for 2016 are:

- **The National Procurement Authority (NPA) – who came out on top under all scenarios,** reflecting an “outlier” performance in all dimensions.
- **Revenue came second** for four out of the seven categories, and **Treasury came second** for three out of the seven.
- **Aid Management and the Insurance Department** both came third once.

The best performing teams (Directorates) in 2016 are:

- **The National Procurement Authority (NPA) – who came out on top under all scenarios**, reflecting an “outlier” performance in all dimensions.
- **The Office of the DG for Revenue** came second in 3 out of 7 categories, the **Payments team in Treasury** came second in 2 categories and the **Large Taxpayer Office** also came second in 2 categories.
- **The Office of the DG for Revenue** came third in 2 of 7 categories while the **Large Taxpayer Office**, the **Payments team** in Treasury, the **Medium Taxpayer Office**, the **IT team** and the **Revenue Services and Support team (SIGTAS)** all came third once each.

**Table 9. 2016 Top Performers – by Performance Category**

Performance Category	Rank	Unit	Raw Grade	Std Grade	x Score	p Score	FPIP Avg x	FPIP Avg p
<b>Directorate General Level</b>								
Risk, Impact and TA	1	National Procurement Authority	A	A+	84.7	84.7	56.8	54.4
	2	Revenues Department	B	A+	67.9	64.7		
	3	Treasury Department	B	A	65.0	65.1		
Risk and Impact Only	1	National Procurement Authority	A	A+	87.5	88.2	59.6	57.9
	2	Treasury Department	B	A+	70.8	72.4		
	3	Revenues Department	B	A	69.9	67.1		
Performance Only - no Risk, Impact or TA	1	National Procurement Authority	A	A+	88.2	88.2	57.9	57.9
	2	Treasury Department	B	A+	72.4	72.4		
	3	Revenues Department	B	A	67.1	67.1		
Performance Only with TA - no Risk or Impact	1	National Procurement Authority	A	A+	84.7	84.7	54.4	54.4
	2	Treasury Department	B	A	65.1	65.1		
	3	Revenues Department	B	A	64.7	64.7		
Performance Only and equal Impact - no Risk or TA	1	National Procurement Authority	A+	A+	92.0	88.2	67.0	57.9
	2	Revenues Department	A	A+	82.9	67.1		
	3	Treasury Department	B	B	73.7	72.4		
Performance Only with TA and equal Impact - no Risk	1	National Procurement Authority	A+	A+	90.2	84.7	65.3	54.4
	2	Revenues Department	A	A+	81.7	64.7		
	3	Insurance Department	B	B	72.1	56.6		
Performance Only with TA and equal Risk - no Impact	1	National Procurement Authority	B+	A+	79.2	84.7	55.4	54.4
	2	Revenues Department	B	A	63.9	64.7		
	3	Aid Management Directorate	B	B+	61.1	56.8		
<b>Directorate Level</b>								
Risk, Impact and TA	1	National Procurement Authority	A	A+	84.7	84.7	57.0	54.6
	2	RD: Office of the DG (Revenue)	B	A+	73.3	72.8		
	3	RD: Large Taxpayers Office	B	A+	72.1	70.0		
Risk and Impact Only	1	National Procurement Authority	A	A+	87.5	88.2	59.7	58.0
	2	TD: Payments	B+	A+	77.5	80.3		
	3	RD: Office of the DG (Revenue)	B+	A+	76.9	77.2		
Performance Only - no Risk, Impact or TA	1	National Procurement Authority	A	A+	88.2	88.2	58.0	58.0
	2	TD: Payments	A	A+	80.3	80.3		
	3	RD: Office of the DG (Revenue)	B+	A+	77.2	77.2		
Performance Only with TA - no Risk or Impact	1	National Procurement Authority	A	A+	84.7	84.7	54.6	54.6
	2	RD: Office of the DG (Revenue)	B	A+	72.8	72.8		
	3	TD: Payments	B	A+	72.2	72.2		
Performance Only and equal Impact - no Risk or TA	1	National Procurement Authority	A+	A+	92.0	88.2	67.6	58.0
	2	RD: Large Taxpayers Office	A	A+	86.0	72.0		
	3	RD: Medium Taxpayers Office	A	A+	84.7	69.3		
Performance Only with TA and equal Impact - no Risk	1	National Procurement Authority	A+	A+	90.2	84.7	65.9	54.6
	2	RD: Large Taxpayers Office	A	A+	85.0	70.0		
	3	AD: IT	A	A+	84.3	68.7		
Performance Only with TA and equal Risk - no Impact	1	National Procurement Authority	B+	A+	79.2	84.7	55.3	54.6
	2	RD: Office of the DG (Revenue)	B	A+	68.3	72.8		
	3	RD: Revenue Services and Support	B	A+	67.6	66.5		

The best raw performance splits for timeliness, quality and problem solving are in Table 10 below revealing that for Directorate General level teams:

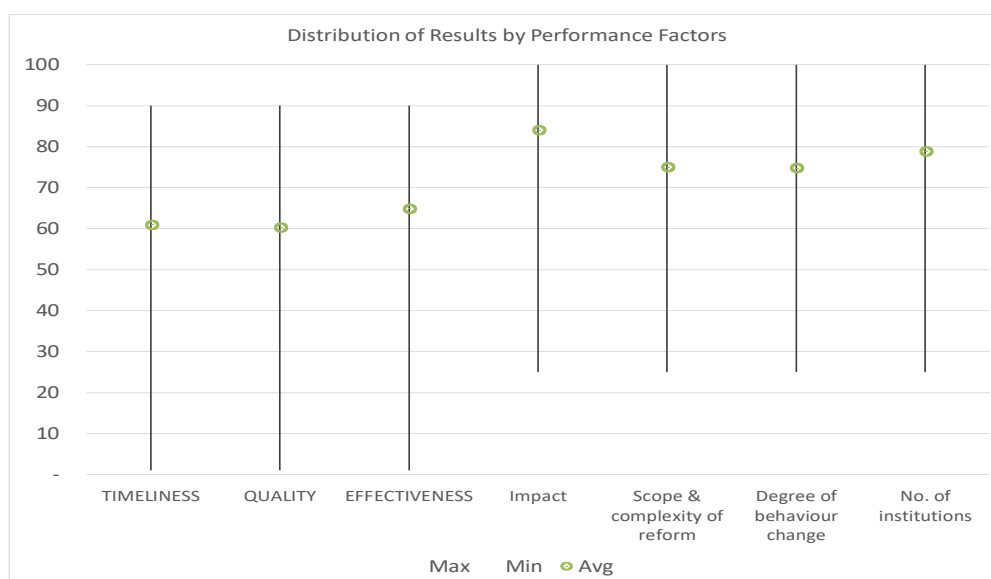
- **National Procurement Authority** rates as most timely, best quality, and most effective at solving problems - against its A-KPIs.
- **Treasury** rates as second most timely, second best quality, and second most effective at solving problems.
- **The Minister’s Office** were the third ranked area on timeliness and **AEITI** was the third most effective at solving their problems.

There were other top performers at the directorate levels: Payments (Treasury), Office of the DG (Revenue), Large Tax-Payers Office (LTO), and Organizational Development (HRD).

**Table 10. 2016 Top Performance split by timeliness, quality and effectiveness**

Performance Factor	Rank	Unit	Grade	Score	FPIP Avg	Min	Max
<b>Directorate General Level</b>							
Timeliness	1	National Procurement Authority	A	85.9	56.7	47.2	85.9
	2	Treasury Department	B	67.8			
	3	Office of the Minister	B	65.2			
Quality	1	National Procurement Authority	A	86.8	55.7	47.4	86.8
	2	Treasury Department	B	65.8			
	3	Revenues Department	B	62.5			
Effectiveness	1	National Procurement Authority	A	87.7	59.7	49.5	87.7
	2	Treasury Department	B	72.8			
	3	AEITI	B	72.5			
<b>Directorate Level</b>							
Timeliness	1	National Procurement Authority (NPA)	A	85.9	56.7	40.0	85.9
	2	Payments	B+	78.8			
	3	HRD: Organizational Development	B+	77.5			
Quality	1	National Procurement Authority (NPA)	A	86.8	55.7	40.0	86.8
	2	RD: Office of the DG (Revenue)	B	73.3			
	3	TD: Payments	B	72.5			
Effectiveness	1	National Procurement Authority (NPA)	A	87.73	59.9	40.0	87.7
	2	RD: Office of the DG (Revenue)	A	80.00			
	3	TD: Payments	B+	78.75			

**Figure 6. 2016 Annual Performance Factor Scores – Min, Max & Average**

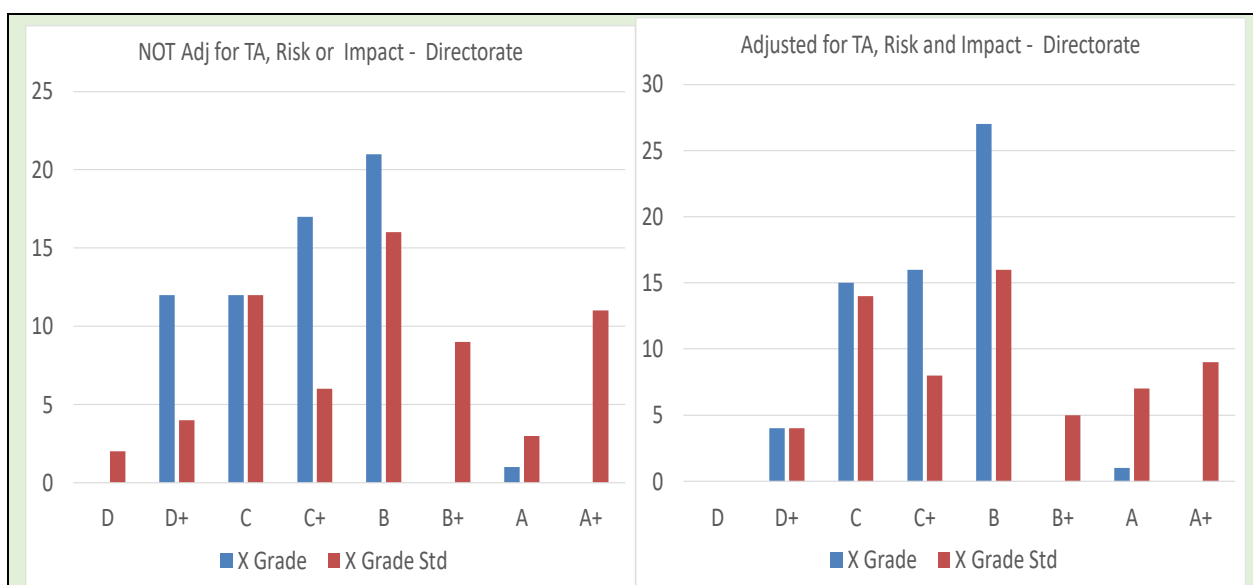


**Generally, scores were normally distributed.** All league tables include raw and standardized grades. Standardization essentially means rescoring raw performance grades to account for the performance of other teams within MOF and partner agencies. If most teams score high, then a standardized score would bring the score down. Ranks do not change from standardizing but do change when applying different weights to performance factors (e.g. timeliness, quality, effectiveness, TA, Impact and Risk and its components).

**Figure 7 shows the effects of standardizing of raw scores.** It shows that raw team scores (blue) move (red) outwards to the right (towards more 'A's) and some to the left (towards more 'D's). There was much more of a push to the right (more 'A's).

**This reveals that scoring in the assessment was on average, generally harder than it was soft,** compared to what a normal distribution would have predicted. (See also **Volume II: Attachment C: Parameter Values** for more information on standardization parameters used.)

**Figure 7. Performance Scores – Standardized Vs Raw**



**The raw scores of performance-only reveal that the National Procurement Authority and Treasury are the top performers at the Directorate General Level for 2016.** This in many ways reflects the large investments by donors and government in some areas and the underinvestment in others. At the Directorate level, the top performers were the National Procurement Authority (NPA), Treasury Payments directorate, the Office of the DG for Revenue, Treasury Systems Development, and the Large Taxpayers Office (LTO).

**The league table of the unadjusted grades is at Table 11 below for directorate general level teams and Table 12 for directorate level.** These tables only summarize performance by weighted average of timeliness, quality and effectiveness grades. Table 13 and Table 14 are the league tables of adjusted scores – for risk, impact and TA. X scores – the score using all baseline parameters - are provided for standardized and raw scores. The complete set of league tables is in **Volume II: Attachment A: League Tables of Team Performance.**

**Table 11. 2016 Annual League Table: Directorate General – Raw & Standardized**

Rank	Agency Level Grouping	Raw Weighted Grade (TQE)	Raw Weighted Score (TQE)	Standardised Grade	Std Deviation
1	National Procurement Authority (NPA)	A	0.88	A+	2.53
2	Treasury Department	B	0.72	A+	1.08
3	Revenues Department	B	0.67	B+	0.49
4	Customs Department	B	0.66	A	0.52
5	AEITI	B	0.66	B+	0.45
6	Macro-Fiscal Performance Department	B	0.65	B+	0.39
7	Office of the Minister	B	0.64	B+	0.30
8	Property Department	B	0.63	B	0.18
9	Aid Management Directorate	B	0.60	B	-0.02
10	Human Resources Department	C+	0.59	B	-0.17
11	Insurance Department	C+	0.58	C+	-0.28
12	Admin Department	C+	0.58	C+	-0.29
13	Reform Implementation Management Unit	C+	0.56	C+	-0.44
14	Internal Audit Department	C+	0.56	C+	-0.46
15	Monitoring, Analysis and Reporting	C+	0.56	C+	-0.47
16	Budget Department	C	0.50	C	-0.94
17	Programs Implementation and Coordination	D+	0.49	D+	-1.10
18	SOE Department	D+	0.48	D+	-1.12
19	Revenue Planning Department	n/a	n/a	n/a	n/a

*Timelines (T), Quality (Q) and Effectiveness (E) grades weighted as 20%, 30% and 50% respectively. TA, Risk and Impact not included in this league table. Raw scores are the weighted average grades. Standardized grades are scores adjusted to fit a normal distribution. NB. Revenue Planning Dept. was abolished in 1395-2016 with functions merged with MFPD, ARD and ACD.*

**Table 12. 2016 Annual League Table: Directorate – Raw & Standardized**

Rank	Agency Level Grouping	Raw Weighted Grade (TQE)	Raw Weighted Score (TQE)	Standardised Grade	Std Deviation
1	National Procurement Authority (NPA)	A	0.88	A+	2.53
2	TD: Payments	A	0.80	A+	1.80
3	RD: Office of the DG (Revenue)	B+	0.77	A+	1.52
4	TD: Treasury Systems Development	B	0.74	A+	1.20
5	RD: Large Taxpayers Office	B	0.72	A+	1.04
6	CD: Law Enforcement	B	0.72	A+	1.01
7	CD: Customs Support and Development	B	0.71	A+	0.92
8	RD: Medium Taxpayers Office	B	0.69	A	0.80
9	AD: IT	B	0.69	A	0.75
10	RD: Revenue Services and Support	B	0.69	A	0.73
11	MFPD: Admin and Reporting Unit	B	0.68	A	0.71
12	RD: Legal	B	0.68	A	0.70
13	OoM: Legal Board	B	0.67	A	0.56
14	HRD: Organizational Development	B	0.67	A	0.54
15	RD: Non-Tax Revenue	B	0.66	A	0.53
16	OoCS: Chief of Staff Operations	B	0.66	B+	0.49
17	PD: Registration and Resolution Directorate	B	0.66	B+	0.47
18	CD: Operations	B	0.66	B+	0.46
19	MFPD: Performance Management Team	B	0.66	B+	0.45
20	AEITI Secretariat	B	0.66	B+	0.45
21	CD: Monitoring & Prev'g Customs Violations	B	0.65	B+	0.40
22	MFPD: Fiscal Directorate	B	0.64	B+	0.34
23	HRD: Recruitment Development	B	0.63	B+	0.24
24	OoM: Communications and Public Relations	B	0.63	B+	0.24
25	TD: Accounting	B	0.63	B+	0.23
26	PD: Capital Properties (Kabul) Directorate	B	0.63	B+	0.22
27	RD: Small Taxpayers Office	B	0.63	B	0.18
28	OoCS: Archive Office	B	0.63	B	0.17
29	AD: MoF Project Implementation Unit	B	0.62	B	0.15
30	OoM: Office of the Chief of Staff	B	0.62	B	0.13
31	MFPD: Macroeconomic Unit	B	0.62	B	0.13
32	RD: Technical and Provincial Liaison	B	0.61	B	0.03

Rank	Agency Level Grouping	Raw Weighted Grade (TQE)	Raw Weighted Score (TQE)	Standardised Grade	Std Deviation
33	AMD: Aid Management	B	0.60	B	-0.02
34	IAD: Office of the DG	C+	0.59	B	-0.13
35	OoCS: Correspondence Office	C+	0.59	B	-0.14
36	CD: Customs Technical Affairs	C+	0.59	B	-0.16
37	PD: Provincial Property Directorate	C+	0.59	B	-0.17
38	HRD: Performance Appraisal & Records	C+	0.59	B	-0.19
39	OoCS: Protocol Office	C+	0.59	B	-0.20
40	ID: Insurance Affairs	C+	0.58	C+	-0.23
41	MARGD: Analysis and Reporting	C+	0.58	C+	-0.29
42	HRD: Training & Development	C+	0.57	C+	-0.31
43	RIMU	C+	0.56	C+	-0.44
44	IAD: Budget and Treasury Audit	C+	0.55	C+	-0.50
45	RD: Appeals	C	0.55	C+	-0.52
46	IAD: Compliance & IT Audit & Fraud Invest'n	C	0.55	C+	-0.55
47	AD: Gender Unit	C	0.55	C+	-0.56
48	IAD: Customs and Revenue Audit	C	0.55	C+	-0.56
49	IAD: Budgetary Audit and Capacity Devt.	C	0.55	C+	-0.57
50	BD: Budget Policy	C	0.54	C+	-0.57
51	MARGD: Directorate of Program Monitoring	C	0.54	C	-0.66
52	HRD: Employee Relations	C	0.53	C	-0.75
53	PICGD: Coordination of NPPs	C	0.51	C	-0.90
54	PICGD: Directorate for Policy Research	C	0.51	C	-0.93
55	OoCS: Translation Board	C	0.50	C	-0.98
56	SD: Policy & Coordination	D+	0.50	C	-0.99
57	SD: Financial Monitoring SoEs	D+	0.50	C	-1.00
58	AD: Procurement and General Services	D+	0.50	D+	-1.02
59	AD: Auctions and Disposals Unit	D+	0.49	D+	-1.04
60	SD: Financial Monitoring SoCs	D+	0.49	D+	-1.07
61	AD: Finance and Accounting	D+	0.49	D+	-1.08
62	BD: Budget Execution	D+	0.45	D	-1.48
63	SD: Divestiture of SPE's & Est. of New SOE/Cs	D+	0.43	D	-1.59
64	OoCS: Non-Allocated Advisor Pool	n/a	n/a	n/a	n/a
65	RPD: Revenue Analysis and Forecasting	n/a	n/a	n/a	n/a
66	RPD: M&E of Revenue Targets	n/a	n/a	n/a	n/a

*Timelines (T), Quality (Q) and Effectiveness (E) grades weighted as 20%, 30% and 50% respectively. TA, Risk and Impact not included in this league table. Raw scores are the weighted average grades. Standardized grades are scores adjusted to fit a normal distribution. NB. Revenue Planning Dept. was abolished in 1395-2016 with functions merged with MFPD, ARD and ACD.*

**Table 13. 2016 “Best and Fairest” League Table: Directorate Generals**

Rank	Agency Level Grouping	X Grade	X Score	X Grade Std	X Score Std
1	National Procurement Authority	A	0.85	A+	2.59
2	Revenues Department	B	0.68	A+	0.83
3	Treasury Department	B	0.65	A	0.53
4	Customs Department	B	0.64	B+	0.45
5	AEITI	B	0.61	B	0.14
6	Office of the Minister	B	0.61	B	0.13
7	Macro-Fiscal Performance Department	B	0.61	B	0.09
8	Aid Management Directorate	B	0.61	B	0.07
9	Admin Department	B	0.60	B	0.04
10	Property Department	C+	0.59	B	-0.06
11	Insurance Department	C+	0.59	B	-0.07
12	Human Resources Department	C+	0.58	C+	-0.22
13	Monitoring, Analysis and Reporting	C+	0.56	C+	-0.39
14	Internal Audit Department	C	0.54	C+	-0.60
15	Programs Implementation and Coordination	C	0.52	C	-0.78
16	Reform Implementation Management Unit	C	0.52	C	-0.79
17	Budget Department	C	0.51	C	-0.90
18	SOE Department	D+	0.50	D+	-1.05
19	Revenue Planning Department	n/a	n/a	n/a	n/a

*In this table, the X Score is the adjusted score, which is the raw performance score (the weighted average for Timeliness, Quality and Effectiveness grades) adjusted for TA, Risk and Impact. Standardized grades and scores (std) are raw scores adjusted to fit a normal distribution.*

**Table 14. 2016 “Best and Fairest” League Table: Directorates**

Rank	Agency Level Grouping	X Grade	X Score	X Grade Std	X Score Std
1	National Procurement Authority (NPA)	A	0.85	A+	2.59
2	RD: Office of the DG (Revenue)	B	0.73	A+	1.40
3	RD: Large Taxpayers Office	B	0.72	A+	1.27
4	AD: IT	B	0.71	A+	1.19
5	TD: Payments	B	0.71	A+	1.16
6	RD: Revenue Services and Support	B	0.70	A+	1.07
7	RD: Medium Taxpayers Office	B	0.70	A+	1.05
8	RD: Legal	B	0.70	A+	1.04
9	CD: Law Enforcement	B	0.69	A+	0.92
10	TD: Treasury Systems Development	B	0.68	A	0.80
11	CD: Monitoring & Prev'g Customs Violations	B	0.67	A	0.72
12	AD: MoF Project Implementation Unit	B	0.66	A	0.68
13	CD: Customs Support and Development	B	0.66	A	0.64
14	RD: Non-Tax Revenue	B	0.66	A	0.61
15	CD: Operations	B	0.65	A	0.58
16	RD: Small Taxpayers Office	B	0.65	A	0.51
17	OoM: Legal Board	B	0.64	B+	0.45
18	RD: Technical and Provincial Liaison	B	0.64	B+	0.42
19	HRD: Organizational Development	B	0.63	B+	0.35
20	OoCS: Chief of Staff Operations	B	0.63	B+	0.33
21	MFPD: Fiscal Directorate	B	0.62	B+	0.21
22	AEITI Secretariat	B	0.61	B	0.14
23	MFPD: Admin and Reporting Unit	B	0.61	B	0.14
24	HRD: Recruitment Development	B	0.61	B	0.13
25	AMD: Aid Management	B	0.61	B	0.07
26	MFPD: Performance Management Team	B	0.60	B	0.04
27	PD: Registration and Resolution Directorate	B	0.60	B	0.03
28	OoM: Communications and Public Relations	B	0.60	B	0.01
29	PD: Capital Properties (Kabul) Directorate	C+	0.60	B	-0.01
30	OoCS: Archive Office	C+	0.60	B	-0.02
31	OoM: Office of the Chief of Staff	C+	0.60	B	-0.02
32	RD: Appeals	C+	0.59	B	-0.07
33	HRD: Performance Appraisal & Record Keeping	C+	0.59	B	-0.07
34	ID: Insurance Affairs	C+	0.59	B	-0.08
35	MFPD: Macroeconomic Unit	C+	0.59	B	-0.13

Rank	Agency Level Grouping	X Grade	X Score	X Grade Std	X Score Std
36	OoCS: Correspondence Office	C+	0.58	B	-0.16
37	IAD: Office of the DG	C+	0.58	B	-0.18
38	CD: Customs Technical Affairs	C+	0.58	C+	-0.20
39	PD: Provincial Property Directorate	C+	0.58	C+	-0.23
40	MARGD: Analysis and Reporting	C+	0.57	C+	-0.26
41	HRD: Training & Development	C+	0.57	C+	-0.35
42	TD: Accounting	C+	0.56	C+	-0.37
43	OoCS: Protocol Office	C+	0.56	C+	-0.45
44	MARGD: Directorate of Program Monitoring	C+	0.55	C+	-0.51
45	BD: Budget Policy	C	0.54	C+	-0.58
46	PICGD: Coordination of NPPs	C	0.54	C	-0.63
47	AD: Procurement and General Services	C	0.54	C	-0.65
48	IAD: Budget and Treasury Audit	C	0.54	C	-0.65
49	IAD: Customs and Revenue Audit	C	0.53	C	-0.70
50	IAD: Compliance & IT Audit & Fraud Invest'n	C	0.53	C	-0.72
51	AD: Gender Unit	C	0.53	C	-0.74
52	IAD: Budgetary Audit and Capacity Dev't	C	0.53	C	-0.76
53	RIMU	C	0.52	C	-0.79
54	HRD: Employee Relations	C	0.52	C	-0.84
55	PICGD: Directorate for Policy Research	C	0.52	C	-0.84
56	SD: Financial Monitoring SoEs	C	0.52	C	-0.85
57	AD: Finance and Accounting	C	0.52	C	-0.86
58	AD: Auctions and Disposals Unit	C	0.51	C	-0.89
59	SD: Policy & Coordination	C	0.51	C	-0.92
60	SD: Financial Monitoring SoCs	D+	0.49	D+	-1.19
61	SD: Divestiture of SPE's & Est. of New SOE/Cs	D+	0.48	D+	-1.26
62	OoCS: Translation Board	D+	0.47	D+	-1.34
63	BD: Budget Execution	D+	0.47	D+	-1.38
64	OoCS: Non-Allocated Advisor Pool	n/a	n/a	n/a	n/a
65	RPD: Revenue Analysis and Forecasting	n/a	n/a	n/a	n/a
66	RPD: M&E of Revenue Targets	n/a	n/a	n/a	n/a

*In this table, the X Score is the adjusted score, which is the raw performance score (the weighted average for Timeliness, Quality and Effectiveness grades) adjusted for TA, Risk and Impact. Standardized grades are scores (std) are raw scores adjusted to fit a normal distribution.*

## PERFORMANCE DIMENSIONS

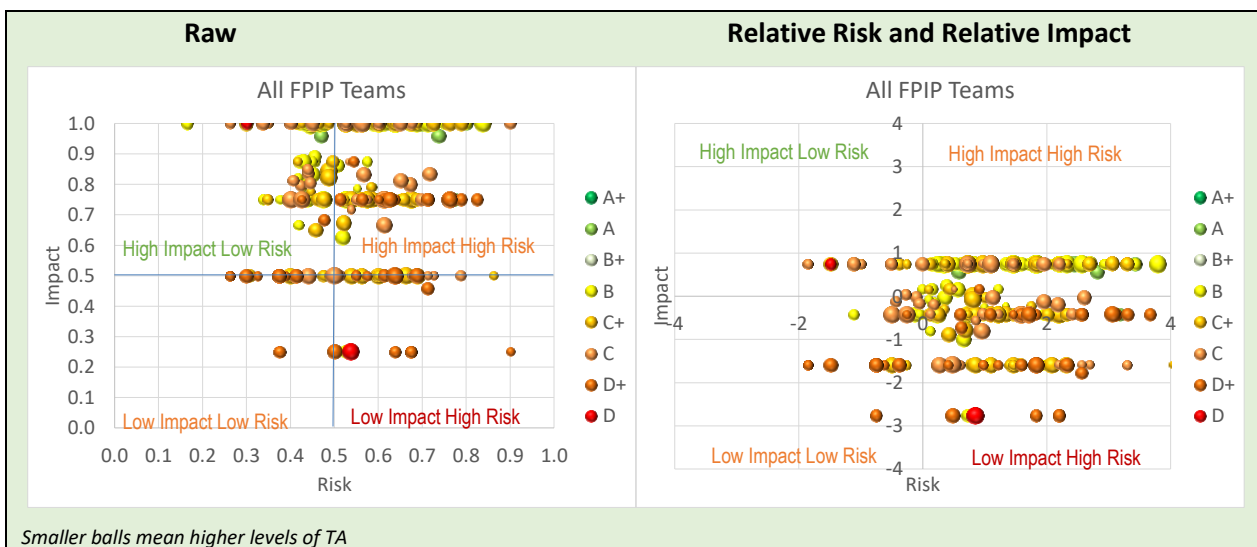
**While the first two sections were about performance of teams, this section looks at the nature of the activities undertaken.** The first section looked at flagship achievements, the second at challenges and the third listed the top-performers in 2016. This section presents performance results in the impact-risk and TA space introduced in the inaugural 5-year plan. Risk impact quadrants will be the same. The color of balls represents performance – red is weak, green is good. The size of balls represents the degree of self-reliance – small is dependent on technical assistance (TA), while big represents a high degree of self-reliance (independence).

**Reform performance depends on the nature of the work.** Some reform is difficult (high risk of failure), some easy. Some reform is very important (high impact), some is less crucial. That is why the team-based performance management system tracks the nature of reforms undertaken. Team grades need to account for differences in the nature of activities. Tracking impact and risk, is also crucial for planning purposes. A better understanding of the importance and difficulty of activities helps implementers overcome problems during implementation, leading to better performance outcomes, timely and higher quality outputs.

**To reveal the spread of risk and impacts, we place performance results in a risk-impact space.** Colors represent performance grades – i.e. Green for A+ and Red for D. The size of balls shows the amount of technical assistance, with small balls for teams that rely on TA to get the job done.

**The upper left quadrants in Figure 8 below represents activities that have high impact with low risk of failure.** These are the “low hanging fruit” as they are easy but are still important. The lower left quadrant represents activities that have low impact but are low risk. These are easy to do but not very important in driving transformational change. The lower right quadrant is the low impact, high-risk activities. Teams should avoid these activities. They are likely to waste a lot of time on things that are not important and are likely to fail anyway. The fourth quadrant is the high impact-high-risk activities. This is where we find the majority of activities. This simply reveals that reform is difficult and that “low hanging fruit” is usually “plucked” a long ago.

**Figure 8. Performance in Impact and Risk Space (2016)**



**Figure 8 above reveals performance in Risk-Impact-TA space.** There are two figures presented. The first one reflects raw risk and raw impact, while the second represents relative risk and relative impact. Raw risk and raw impact represents the actual risk and impact ratings assessed by teams. Relative risk and relative impact means risk or impact compared to the group. Specifically, the Y-axis is the *relative impact* – being the standard deviation from the mean impact score for the group. The X-axis is *relative risk* – being the standard deviation from the mean risk score for the group.

**Intuitive results of performance and risk of failure are not yet apparent.** Intuitively, activities with high risk of failure should have worse performance outcomes expressed as lower grades, since by definition there is a higher risk of failure. As seen in other settings, intuitive results emerge as the system becomes routine and ratings become more accurate.

**One key lesson that does emerge is that risk taking is fine if it is calculated** and working towards something bigger. While on the face of it, reviewing high-risk activities in order to reduce risk makes sense, many of the teams that have high-risk activities, are actively managing the risk through hard work. Moreover, teams make efforts to phase risky activities in many cases, with the sequencing and phasing of activities reflected in the 5-year rolling plan. For more information also see **Volume II: Attachment E: Performance, Risk-Impact Heat Map.**

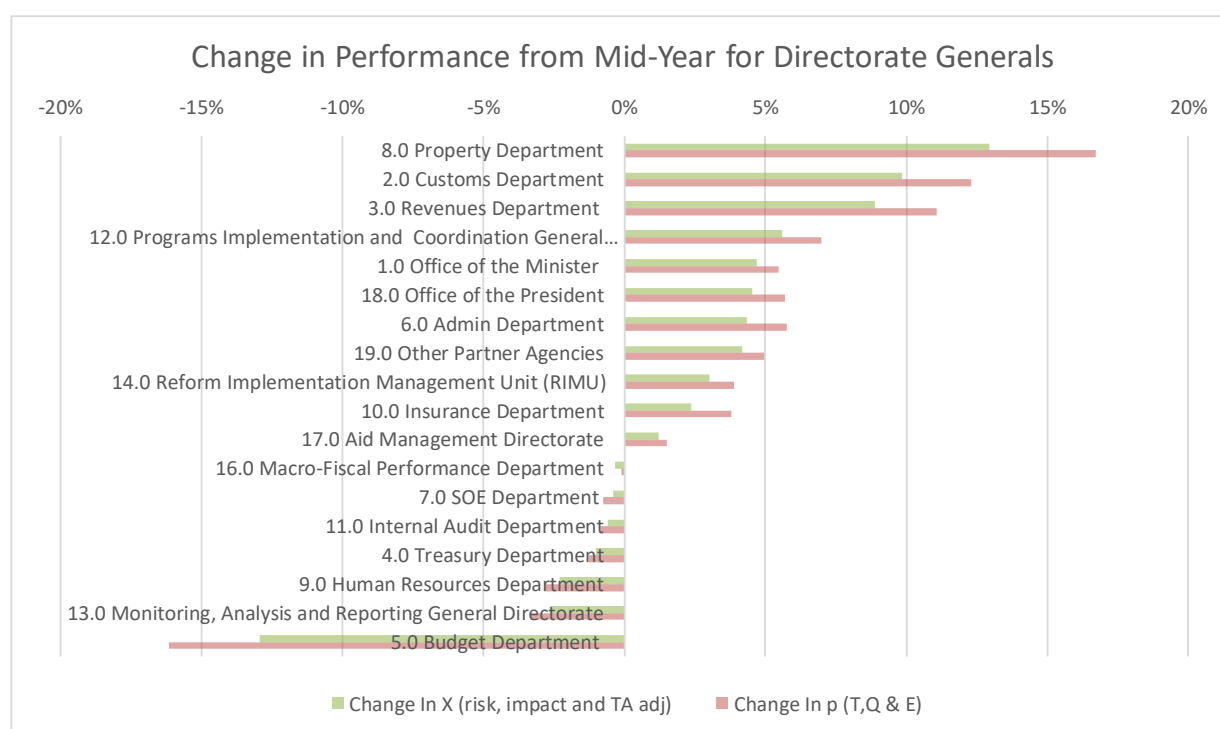
## THE BIG IMPROVERS – CHANGES SINCE MID-YEAR

This section provides an assessment of the teams that improved the most when compared to the mid-year performance report. Figure 9 reveals the change in performance scores for directorate general level. (See also **Volume II: Attachment F: Changes in Performance Since Mid-Year.**)

The three stand out performers in terms of working hard to improve performance and delivering results were:

1. **Property Department** – recorded a 17 percent improvement in raw performance going from D+ (41) to a C+ (58) for raw performance.
2. **Customs Department;** and – 11 percent - going from C (51) to B (62); and
3. **Revenues Department.** – 10 percent going from C (54) to B (63).

**Figure 9. Most-Improved Directorate General Level Teams from Mid-year**



**Property did very well**, though the high improvement mark for property reflects that the mid-year assessment was arguably overly harsh. This was corrected during the annual update. Significant improvements were nonetheless recognized, especially in areas of raising revenue collection, increasing registration and data quality, and strengthening public finance systems for property management (including reporting, sub-accounts, reconciliation and rent arrears tracking).

**Customs and Revenue Department had a significant turnaround in rated performance.** New leadership and leadership teams are established and taking on the challenges of building viable organizations built on a foundation of performance management culture. The top ten teams are provided at Table 15, which comprises teams from the three directorate general level organizations: Revenue, Customs and Property.

**Budget Department deteriorated the most with a 15 percent reduction in performance – going from a B (63) to a D+ (47).** This was a result of an inability to deliver on many of the key reforms that looked so promising at mid-year. These included, moving allotments to standard

commitment control systems to Treasury, delivering a believable budget for 1396/2017, ensuring revenue forecasts are credible, with carryover systems to be consistent with the law and international standards, and a move to policy based budgeting via medium term budgeting system that calculates annual and medium fiscal space based on the difference between revenues and the costs of existing policies.

**Table 15. 2016 Top Ten Improvers at Directorate Level**

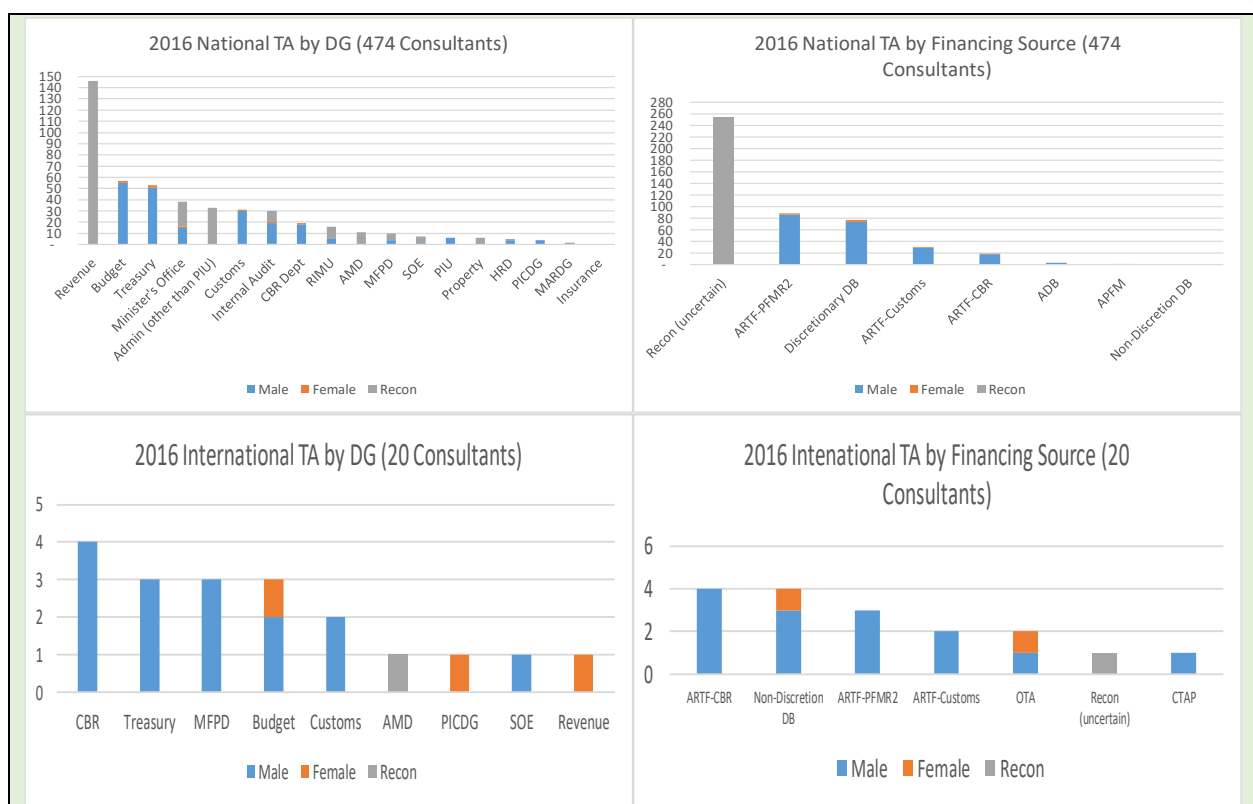
Directorate	% change in P (T, Q&E)
8.3 PD: Capital Properties (Kabul) Directorate	15%
3.1 RD: Office of the DG (Revenue)	14%
8.2 PD: Registration and Resolution Directorate	14%
2.2 CD: Law Enforcement	13%
3.2 RD: Large Taxpayers Office	13%
2.1 CD: Customs Support and Development	13%
3.9 RD: Revenue Services and Support	12%
2.5 CD: Department of Monitoring and Preventing Customs Violations	12%
3.7 RD: Non-Tax Revenue	11%
2.4 CD: Operations	11%
8.3 PD: Capital Properties (Kabul) Directorate	15%
3.1 RD: Office of the DG (Revenue)	14%
8.2 PD: Registration and Resolution Directorate	14%
2.2 CD: Law Enforcement	13%

## STAFFING AND TECHNICAL ASSISTANCE

Table 16. 2016 Tashkeel Staffing Establishment Status

Staffing Data	TA	Estb	Grades										Total Filled	Vacant
			1	2	3	4	5	6	7	8	9	10		
Office of the Minister	40	133	2	5	10	19	23	36	17	21	0	0	130	3
Customs Department	33	295	1	4	16	55	145	39	6	29			295	0
Revenues Department	147	794	1	9	36	123	258	269	11	87			794	0
Treasury Department	56	625	1	3	12	78	192	274	6	59			610	15
Budget Department	60	96	1	2	16	56	8	1	4	8			96	0
Admin Department	62	412	1	4	12	42	71	67	146	69			412	0
SOE Department	8	82	1	2	8	22	25	15	2	7			82	0
Property Department	6	142	1	3	9	25	30	25	14	35			142	0
Human Resources	5	113		1	5	16	41	31	4	15			111	2
Insurance Department	0	28		1	2	9	12		2	2			28	0
Internal Audit Dept	30	153	1	4	12	49	75	1	2	9			153	0
PICDG	5	30	1	2	4	13	3		2	5			27	3
MARGD	2	29	1	2	4	11	4		4	3			29	0
RIMU	16		0	0	0	0	0	0	0	0				0
MFPD	13	25	1	3	12	0	1	0	5	3			25	0
Aid Management	12	20		1	2	13	1	0	1	2			20	0
NPA														
AEITI														
<b>MoF Total</b>	<b>480</b>	<b>2,941</b>	<b>11</b>	<b>42</b>	<b>152</b>	<b>527</b>	<b>875</b>	<b>758</b>	<b>224</b>	<b>352</b>	<b>-</b>	<b>-</b>	<b>2,921</b>	<b>20</b>
<b>Grand Total</b>	<b>608</b>	<b>3,207</b>	<b>112</b>	<b>109</b>	<b>174</b>	<b>549</b>	<b>919</b>	<b>758</b>	<b>224</b>	<b>352</b>	<b>-</b>	<b>-</b>	<b>3,048</b>	<b>159</b>

Figure 10. Source Data Review: National and International Consultants



This section presents latest available data on staffing and technical assistance levels in each team. We find that further work is required to match up existing staffing and technical assistance with technical assistance requirements under the fiscal performance improvement plan. Early analysis reveals that TA to tashkeel levels are highly variable.<sup>14</sup> Data was collected from three different sources: Human Resources Department, Internal Audit and the RIMU.

<sup>14</sup> Data presented here updates data provided in the mid-year tracking report as at September 2016. The independent validation team are seeking more recent

**Reconciliation reveals that more work is required to deliver more transparent reporting on staffing and technical assistance levels with MoF and the Fiscal Performance Improvement Plan more broadly.**

**Focusing on Self-Reliance**

**Progress towards self-reliance is steady.** While all teams still rely on TA, TA-dependency is being systematically addressed by the FPIP and performance management systems. Phasing out of programs that have traditionally provided large numbers of external technical assistance is well under way, while negotiations with development partners are focusing on supporting the 5 year rolling plans and less reliance on TA. The performance management system is providing incentives to move towards self-reliance in planning, in assessing performance and reporting progress.

**That said the dependency of teams on technical assistance is still deep.** All directorates report that they need TA to get reform work done on time and to standard. ***There is no team ... yet ... that can perform very well compared to its peers without any TA.*** Currently, nearly all directorates require technical assistance to deliver on the reform work while most activities required some TA to get the work done, with over half of the activities requiring heavy technical assistance (see Figures 13 and 14 below). Over time, these levels need to reduce.

**Figure 11. TA Share of Workload**

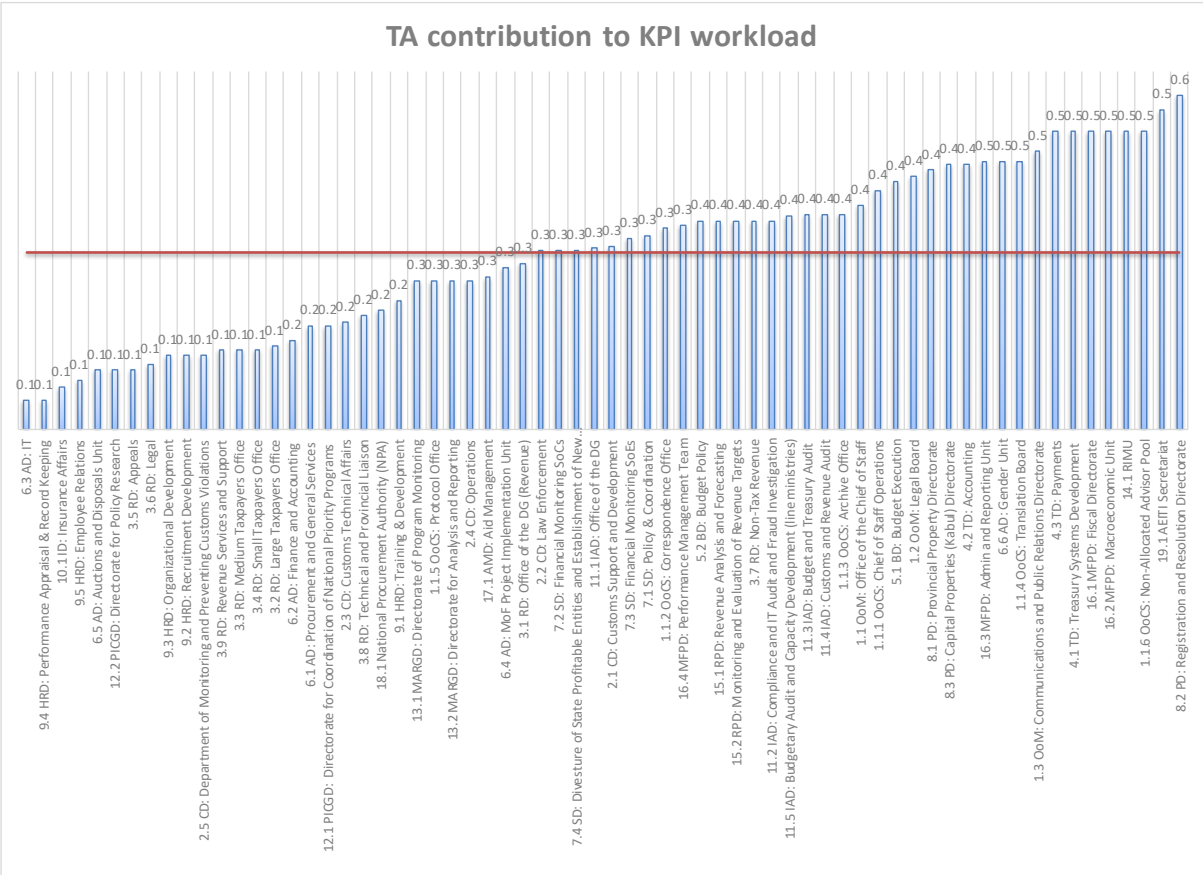
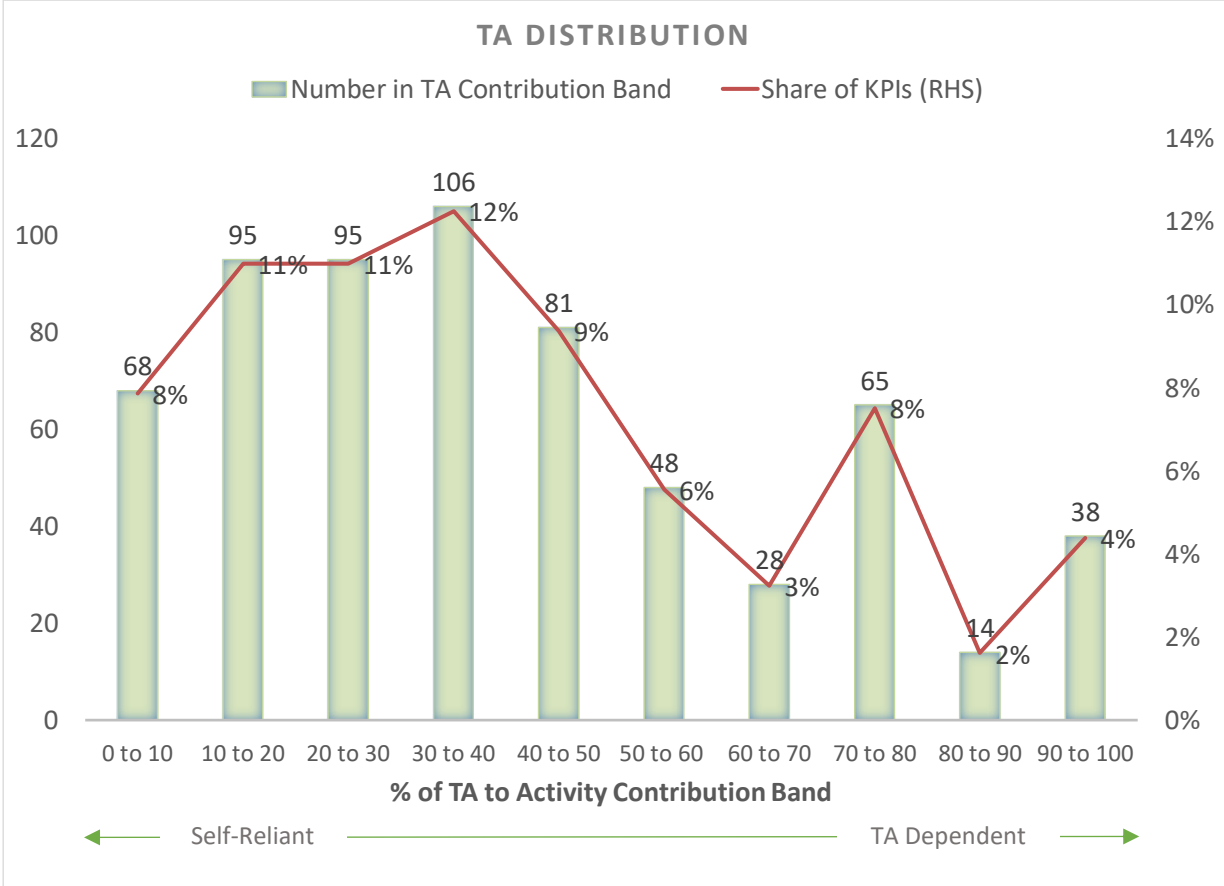


Figure 12. TA Dependency Levels: Distribution of TA to KPI

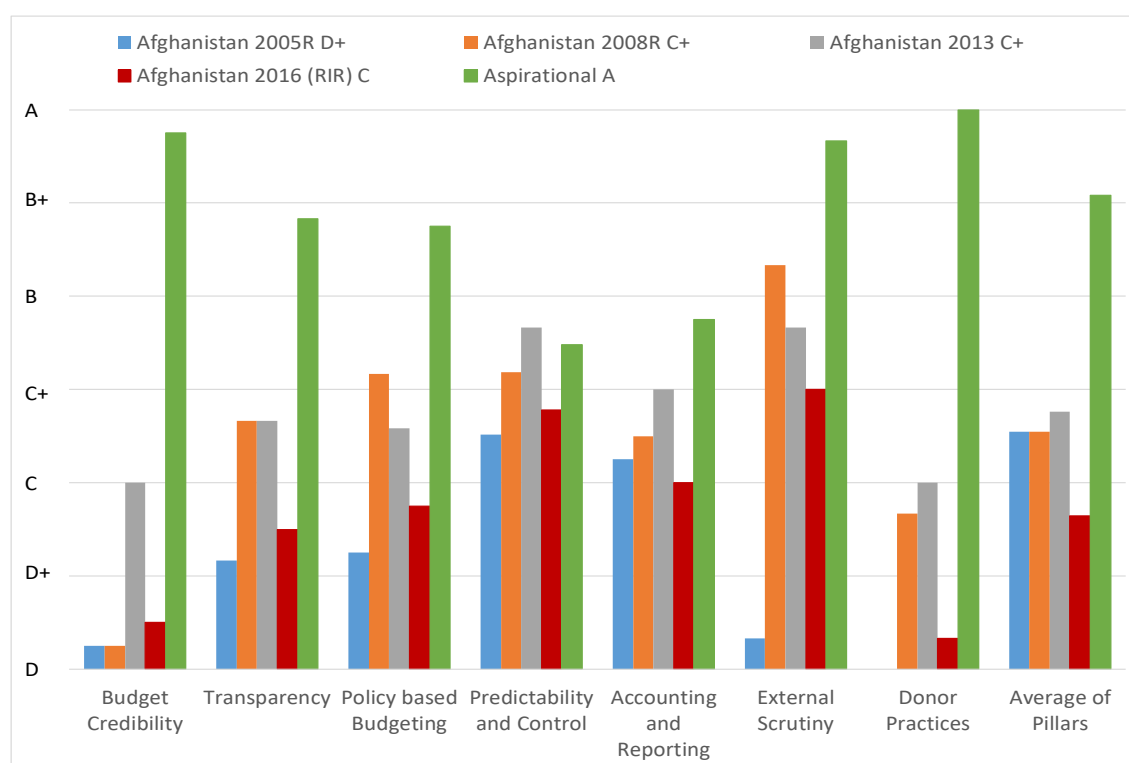


## CHANGES TO THE PEFA FRAMEWORK AND THE IMPLICATIONS FOR AFGHANISTAN

**A key feature of the Fiscal Performance Improvement Plan is the adoption of aspirational (or guiding) targets.** Fixed aspirational targets throughout the reform period ensures teams are focusing on building systems that work in the local context but also meet increasingly higher international standards over time. They are also intended to assist donors in interpreting progress made in various areas of reform. Much more training is needed for local staff on how these aspirational targets and international benchmarks relate to their specific work area.

**As part of the annual performance cycle, informal assessments of progress against certain aspirational targets are undertaken.** The validation team did this for aspirational PEFA targets. PEFA aspirational targets had been set on both the original PEFA and the upgraded PEFA that was under testing at the time the aspirational targets were set. Since then, testing of the new PEFA has been completed and a new PEFA was released in February 2016. Consequently, the validation team also completed a rapid internal review of performance against the new PEFA, with the view of providing recommendations for a new set of aspirational targets.

**Figure 13. Evidence of Overly Generous Scoring of Legacy PEFA**

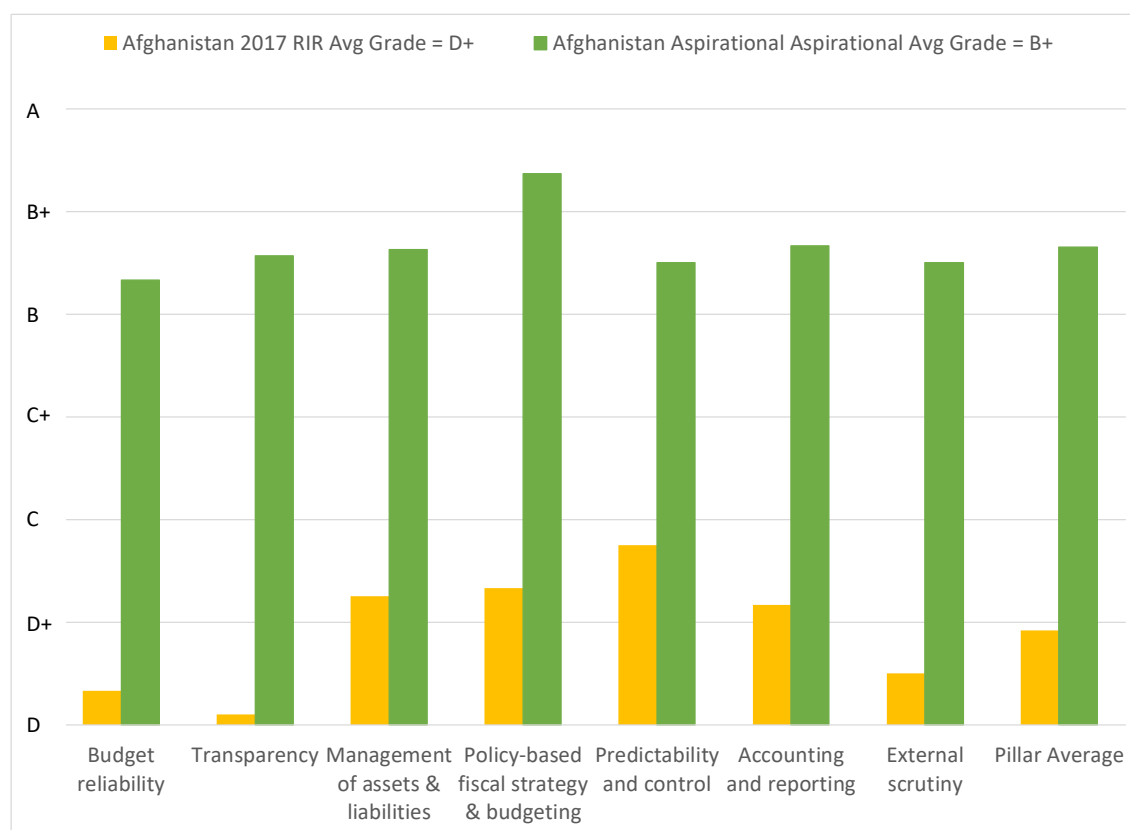


**The rapid review of the legacy and new PEFA revealed that there is a high risk that three previous PEFA were overly generous in the marking, painting a positive story that the quality of public financial management was better than it actually was.** As has been argued elsewhere, PEFA scoring can be highly subjective and influenced by arguments for and against why a score should be higher or lower. The new PEFA 2016 is much clearer on many indicators and should be less amenable to a negotiated score as opposed to an evidence driven score. After a full performance cycle, and together with the new PEFA guidance, the validation team found many instances where past PEFA scores were arguably higher than what they should have been. For example, the new PEFA makes it clear that “expenditures financed externally by loans or grants should be included, if reported in the budget” (p 14 of PEFA 2016 Guidance). In contrast,

Afghanistan’s past PEFA assessments argued that it was appropriate to exclude non-discretionary budget allocations from calculations – consequently, budget creditability was formally scored higher than if the full budget was used. Figure 13 above reveals the results of the rapid review, which shows that across all of the PEFA pillars, there is evidence that scores should have been lower. The simple average score for 2016 was calculated to be a “C” equivalent, compared to the C+ score from 2008 and 2013. The validation team has seen very little evidence that systems have deteriorated over the last five to ten years, indicating the original scores were too high.

**The results of the rapid review of PEFA 2016 rapid internal review** are presented at Figure 14 below. The figure reveals a simple average score equivalent of a “D+”. The relatively lower score compared to the legacy PEFA is partly due to new PEFA indicators such as Public Investment Management and Performance Information, and enhanced indicators such as Fiscal Risk Reporting and Medium Term Budgeting, where current practice remains below par. The rapid assessment was performed to help inform the government’s reform programing within the context of rolling over the 5-year plans for 1396-2017. A firm scoring approach was followed to ensure scoring was not overly generous, as it was felt that overly generous scoring is bad for reform programing, as crucial reforms might be overlooked.

**Figure 14. Setting a Realistic Baseline and New Aspirational Targets**



**The Validation Team have also provided their opinion on aspirational target levels under the new PEFA 2016 framework** (see Figure 14 above). The recommendation takes in to consideration the capacity of officials to successfully complete the reforms steps required to achieve the higher scores. It also assumes that tough political decisions and supportive diplomatic efforts are taken to unblock resistance to reform. (See **Volume II Attachment H: Legacy and Updated PEFA – Preliminary Results** for more details on the independent Validation Team’s 2016 assessment under the legacy PEFA and 2016 PEFA frameworks.)

## SENSITIVITY ANALYSIS

**This section summarizes the sensitivity of league tables to changes in performance parameters.** For example, changes to the weighting of performance dimensions – timeliness, quality and effectiveness. Other key parameters include how much of a discount to apply for the TA used in getting an activity done on time and to standard.

**All parameters underwent a sensitivity analysis.** Table 17 below provides the parameters and values used. An explanation and the rationale for the choice of parameters used is at Attachment C in Volume II. Parameters applied in the FPIP Team-based Performance Management System are the weights used for each performance measurement variable included in performance scoring equations. The complete results of sensitivity analysis are at **Volume II: Attachment D: Sensitivity Analysis.**

**Table 17. One-Way Sensitivity Analysis Results – parameters**

Parameter	No of Rank Changes	Avg	Std. Dev	Sensitivity Analysis Parameters – increments of 0.01
Risk	146	1.46	1.77	Impact 0.1, p adjusting
Impact	126	1.26	1.34	Risk 0.1, p adjusting
TA	98	0.98	1.28	0.1 increments (0 to 1) TA only (0 to 1)
Visibility	30	0.3	0.77	0.1 increments (0 to 1) - others equal weight but complexity locked at 0.15
Complexity	24	0.24	0.65	others equal weight but visibility locked in at 0.25
Timeliness	44	0.44	0.88	Quality 0.25, Problem solving adjusting
Quality	18	0.18	0.64	Timeliness 0.25, Problem solving adjusting

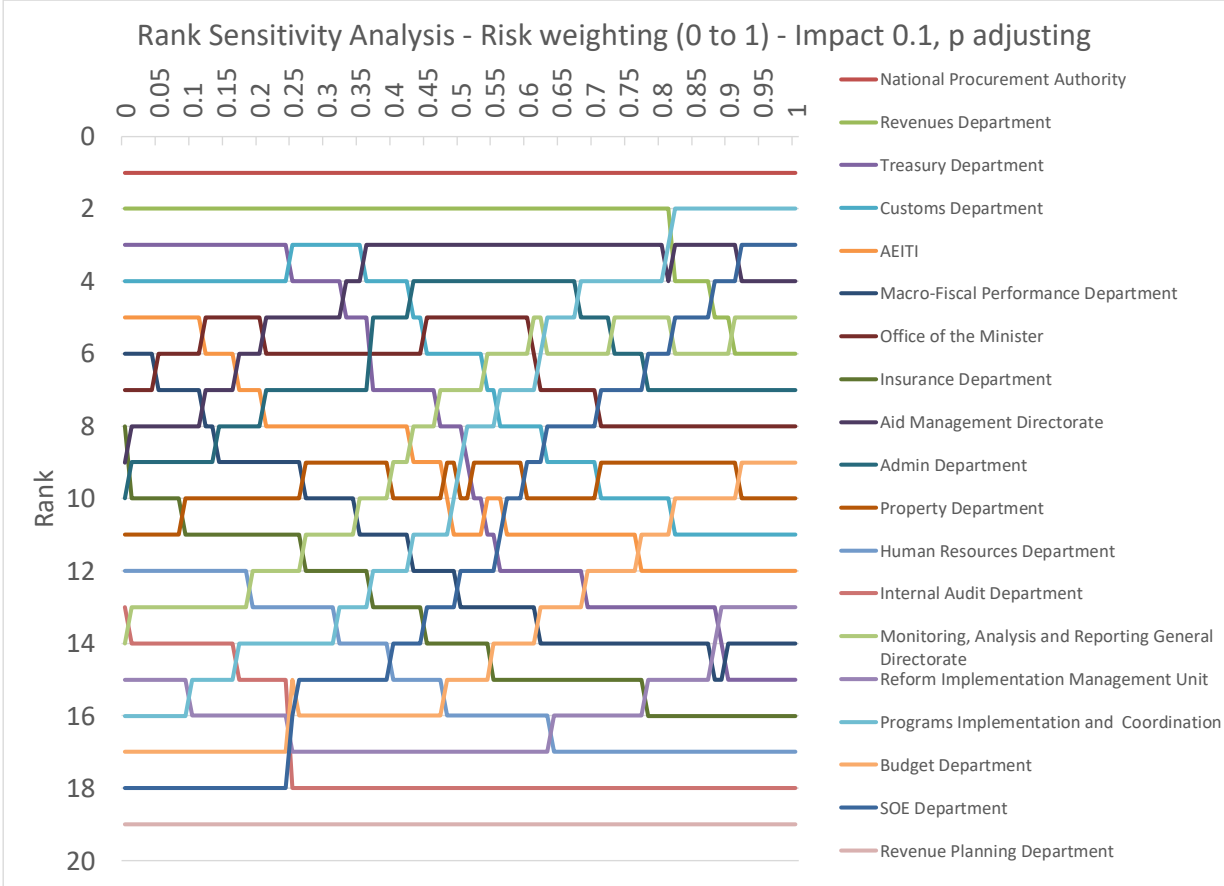
**One-way sensitivity analysis allows a reviewer to assess the impact that changes in a single parameter will have on the results.** In this case, the validation team was interested in what happens to rank positions if different parameters were. Parameters could take a value between zero and one (0-1). Sensitivity analysis involved varying each parameter by a small amount (0.01) and then assessing if any team ranks changed. We applied this to every value between zero and one by increments of 0.01 and counted the number of marginal changes in rank. The more rank changes that occurs, the more the sensitivity of the model to the choice in parameter. Figure 15 below presents the results of one-way sensitivity analysis for approach described.

**Risk of failure or difficulty parameter was the most sensitive** as revealed by Table 17 above. 142 rank changes were recorded during the simulation on risk. Impact and TA parameters were the next most sensitive with 125 and 101 rank changes respectively. The two risk dimensions assessed – Visibility and Complexity - were the least sensitive with 24 and 22 changes recorded.

**Of the performance dimensions, Timeliness and Quality were found to be relatively sensitive** compared to risk and impact parameters. Timeliness was found to be more sensitive than the quality parameter with changes of 38 and 16 respectively. It is not surprising that risk dimensions are less sensitive than impact or TA dimensions, given that they are subordinate parameters.

**Figure 15 below reveals the results of the sensitivity analysis on risk** – or in other words the extent of rank changes when changing the weight used for risk. Changing the weighting of risk can lead to dramatic changes to league tables.

**Figure 15. Sensitivity Analysis: Rank Changes by Changing Risk Weights**



## DISCUSSION AND FUTURE DIRECTIONS

**Early signs from this first full performance cycle are there that teams are responding to positive incentives.** To reinforce this emerging culture change at the team level, the budget needs to support the FPIP and ensure that the gaps identified by all teams are to the maximum extent possible all met with increased and better targeted resources. This requires a strong ongoing commitment from the Minister, the Deputy Ministers, the DGs and their development partners.

**Feedback from teams to the Validation Team indicate that resourcing of the plans is the primary issue they are concerned with.** Teams have questioned the value of a performance system if the outcomes do not result in teams being provided with the necessary resources they need to close the gaps identified in their plans. The Validation Team agree with this concern.

**Teams also want to have a better understanding of how the validation process works.** The majority of teams embraced the performance management system and the healthy competition it creates in the spirit that is intended. Debate has been robust but based around evidence and outcomes. The emphasis that most teams put on the grades is they want a “fair” outcome. This is something the Validation Team also agrees with. There were two rounds of comments on the exposure draft of the assessment and a validation meeting of all DMs and DGs chaired by the Minister to discuss the outcomes and seek feedback. The Validation Team made a number of adjustments to the scores and to the narrative in the report based on this feedback. The Validation process like all other parts of this evolving system must adapt and improve. There is a need to make the validation itself as credible as it can be including by adding additional expertise to the mid-year and annual assessment processes.

**A crucial element of the process acknowledged by teams and donors alike is the need for better plans.** The better the plan, with better alignment to measurable benchmarks the better the performance system is going to work. Technical assistance is going to be needed in a number of places and should be channelled into improving the plans. That said, improving the plans at the expense of ownership should not be supported. Getting the right balance between the two will be a challenge moving forward. Similarly, there needs to be a balance struck between making the FPIP and the Performance Management System a management tool and using it to improve transparency and accountability.

**There is a large need for training in frameworks like PEFA, and in other areas of public financial management.** The upcoming PEFA assessment is an opportunity for the government to lead the process working with the World Bank rather than it be a process that happens to Afghanistan.

**Lastly, the Government needs to carefully consider the performance outcomes, judge for themselves the progress being made and allocate resources accordingly.** All teams matter and progress needs to be made across the board, not just in a few high-profile areas. If Team Based Performance Management is to be sustained and rolled out to other parts of the Government it will require more investment in the facilitation function (the PMT) and the independent validation function, bringing in additional expertise in key areas.

**Fiscal reform is hard and requires discipline over a long period of time.** This is not about money or the problems in Afghanistan would have been solved long ago. Hard decisions will be required, leaders will need to show resilience and those who work hard and commit to change must be recognised and rewarded.

