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

Abstract

This paper presents the Government's plan the implementation of the Public Financial Management Roadmap II (PFMR-II). Implementation will involve a team-based performance management approach around a 5-year rolling plan of actions, informed by the vision and objectives set out in the PFMR-II and a range of aspirational and guiding targets.

This paper describes implementation of the reform process over a five-year period. It provides an overall framework for reform including translating the PFMR-II strategy into a team-based Fiscal Performance Improvement Plan (FiPIP).

The paper opens with answering a question – why use team-based performance management and 5 year rolling plans, and why use it in a fragile state setting. It then follows up with an outline of how the system will work including what will be done and by when.

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ACRONYMS

AAA	Accra Agenda for Action
AFMIS	Afghanistan Financial Management Information System
BY	Budget Year
DTF	Distance To Frontier
EU	European Union
FiPIP	Fiscal Performance Improvement Plan
FOCUS	Fragility Assessment, One Vision one plan, Compact, Use PSG to monitor, Support political dialogue
GDP	Gross Domestic Product
GoIRA	Government of the Islamic Republic of Afghanistan
MDA	Ministries, Departments and Agencies
MoF	Ministry of Finance
NOC	No Objection Certificate
OBI	Open Budget Index
OGP	Open Government Partnership
PEFA	Public and Financial Accountability
PFM	Public Financial Management
PFMR-II	Public Financial Management Roadmap II
PMT	Performance Management Team
SAI	Supreme Audit Institution
SOM	Senior Officials Meeting
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TRUST	Transparency of Aid, Risk Sharing, Use and strengthen country systems, Strengthen Capacity, Timely and predictable aid

For PEFA related terms please refer to PEFA Guidance.

EXECUTIVE SUMMARY

A Public Financial Management Roadmap for Afghanistan

1. **Sound Public financial management is a key competency for any government**, and in a conflict affected fragile state like Afghanistan, it is even more crucial to ensure that fiscal policy is an effective tool for national development. The budget must not only play an economic role, but must also be the conduit whereby the Government delivers on its policy goals. Government must build credibility with the community by directing scarce budget resources towards priorities that matter to people. While public financial management has been an area of relative strength in Afghanistan over the last 14 years, reforms have not been sufficient over recent years to deliver a strong enough system that helps Government translate policy into results. The system needs to be much better. The challenges ahead are harder than the path taken so far. It is much harder to move from the middle to the top than it is to move from a low base to the middle and the status quo is no longer going to deliver for Afghanistan.

2. **Over the last 6 months the Government has undertaken a process to determine a pathway for reform** over the next 5 years towards improved public financial management. This began with a comprehensive assessment of the prevailing systems and capacity commissioned by the President. This was followed by detailed consultation that resulted in in the PFM Roadmap strategy. The strategy at its heart is focused on increasing Government ownership of reforms, reforming fiscal policy and the budget process to increase flexibility and create some fiscal space for the Government. The strategy is also focused on reducing fiduciary risk by improving the way planning is done, how programs are managed and how outcomes are monitored and reported on.

3. **This is an ambitious plan, but is seen by the Government as crucial to the success of the self-reliance agenda**. In order to implement this roadmap, the Government will introduce a performance management system around a 5-year rolling plan. This 5-year rolling plan will focus on teams, rather than themes. This is an important distinction, in a country with a long history of conflict and fragility, it is crucial that there is clear accountability for results. Team based performance management that concentrates on team level rolling plans means every aspect of institutional development is part of the reform process. Plans are developed by Government officials to reflect their goals and capacities, ensuring that accountability for successes and failures is firmly with the Government.

4. **Donors will remain crucial in assisting Government to achieve reforms, but the Roadmap will follow principles of TRUST[1] and FOCUS[2]**

[1] **TRUST** = Transparency of Aid, Risk Sharing, Use and strengthen country systems, Strengthen Capacity, Timely and predictable aid.
[2] **FOCUS** = Fragility Assessment, One Vision one plan, Compact, Use PSG to monitor, Support political dialogue

as outlined by the g7+ group of fragile and conflict affected states and will concentrate on ownership by the Government.

5. **A successful roadmap will see a new look budget process**, with a clear top down strategy for the budget set out by the cabinet; a medium term expenditure framework that properly captures the costs of current policy over the budget and two forward estimate years; a budget process that focusses on strategic priorities for important basic services within the fiscal space available; policies to improve revenue collection through new policy and improved administration; budget execution that removes ineffective and administratively burdensome processes and focusses on lowering fiduciary risk; budget reporting that provides transparency and accountability for the investments the Government makes; and a performance orientation to budget and annual reporting, which enables a comparison of promises with results that is routine and understandable to the public.

6. **This process will take 5 years, but performance reports will be compiled every 6 months and published every year**, tracking indicators by teams, and against aspirational targets against key international benchmarks such as the Public Expenditure and Financial Accountability framework, Open Budget Index and Doing Business Indicators.

Why team based performance management and a 5-year rolling plan?

7. **Conflict affected and fragile states are difficult operating environments**. Often, perceived low capacity is used as an excuse for low Government ownership and heavy reliance on technical assistance. Afghanistan has to some extent suffered from the same issues, but the Government is committed to changes that will build the credibility of the state.

8. Under this program of reforms, team-based performance management will be designed to:

- ***Ensure Officials Run Ministries*** – not advisors, consultants or other stakeholders;
- ***Improve the Quality of Spending*** – stakeholders will know why, how, what on and where spending happens; and
- ***Set the foundations for Donors to link more flexible financial assistance to performance*** - when conditions are right for a donor.

9. **By instituting team-based performance management, the Government is saying we value institutional culture** as the primary determinant of performance. Moreover, we believe that managing teams is more effective than managing themes. Focussing on teams means more direct lines of reporting and increased accountability for results.

10. **It is also important to base performance management around rolling plans that reflect the challenges we face.** Reform in the prevailing environment is not simple and will take time. Results will be uneven. By establishing 5-year plans, we can ensure that the Government is taking on high impact but achievable reforms and that we are tracking progress along the way. Every team will contribute to results, because we know that every team counts. We cannot break the cycle of dependency on external assistance if we do not fix HR, IT and internal budget processes in government agencies. Good policy is useless if there is not the capacity to implement it.

How will it work?

11. **The implementation of the 5-year rolling Fiscal Performance Improvement Plan is a tool to achieve reforms**. The Government has established a small Performance Management Team (PMT) within the Fiscal Policy Directorate at the Ministry of Finance to facilitate the process. The PMT will be under the direct supervision of the Minister for Finance and will:

- ***Facilitate intensive team-based discussions*** to turn the PFMR-II strategy into a 5-year rolling plan based around a range of key performance indicators.
- ***Design and maintain a system for monitoring progress and rating performance***. This system will be designed with teams and all staff will be trained in how their performance is being measured.
- ***Facilitate semi-annual team based performance discussions and annual performance reporting*** to the Minister and Deputy Ministers on progress with implementation of the PFM Roadmap. Teams will self-assess performance and the PMT will moderate and ensure independent validation of scores and facilitate discussions based on evidence.

12. **The performance scoring approach** adopted is one that scores each activity against three dimensions:

- ***timeliness*** – was the activity done on time or was it late;
- ***quality*** – was the activity done to a high or low quality; and
- ***effectiveness*** – how effectively did teams deal with problems?

13. **While the first two dimension are the most common and self-explanatory, the third dimension is the most important.** Focusing on how teams manage problems while pursuing reform helps teams to understand and explain what has been achieved. A fourth performance dimension will also be employed, which quantifies the amount of international and domestic Technical Assistance (TA) being provided in support of the reform activity. This is tracked in order to:

- Ensure that teams being run by Afghans with lower or no international TA are not disadvantaged in performance ratings;
- Ensure teams that are being run with low levels of national consultants are not disadvantaged; and
- That the self-reliance agenda is a prominent component of the performance management system.

What will be done, by who and when?

14. For the team-based performance management system to work the Government will meet three essential pre-conditions by the end of 2015 / December 1394:

- *A set of annual action and time bound reform activities grouped by teams* /organizational units – backed by a 5 year sequenced action plan to achieve a long-term vision.
- ***A set of medium term aspirational targets drawing from a range of international performance measures*** for PFM system quality (e.g. PEFA, open budget, revenue watch, etc.) as well as some key country specific intermediate performance measures.
- **A credible and independent system to assess and grade performance,** which recognises outstanding contributions and flags under-performing teams and is capable of providing recommendations on steering the PFM reform ship.

15. **Two performance reports will be produced every year.** The system is designed to work within existing management systems with the PMT facilitating performance reporting on team-based plans. This will enable implementers to implement and not overburden teams with unproductive reporting while at the same time improving the amount of performance information being generated across the Government. Teams will held to account for performance through various mechanisms including facilitated self-assessment, publishing of league tables ranking each team against one another and by requiring teams to explain their performance to their leadership in six monthly validation meetings.

16. Performance assessments will be twice per year:

- ***In the first half of the year*.** To help ensure efforts are on track to deliver annual reform actions by the end of the year, but also to ensure relevance of reform activities being undertaken and validate donor performance payments for the following year; and

- ***Near the end of the year.*** To assess end-of-year progress (with time to spare to correct any major problems), but also to trigger and finalize any linked performance payments to be made in the following year, while also ensuring that the best estimates of any programmatic budget support are included in the annual budget papers.

INTRODUCTION

17. **This paper presents the Government's plan for the implementation of the Public Financial Management Roadmap II** (PFMR-II) Strategy. Implementation will involve a team-based performance management approach around a 5-year rolling plan of actions, informed by the vision and objectives set out in the PFMR-II and a range of aspirational and guiding targets.

18. **The PFMR-II Strategy establishes a guiding vision for PFM reforms.** The strategy sets out some primary objectives for fiscal performance improvement. It is the "planning instrument for development and reform of the public financial management system for the Government of the Islamic Republic of Afghanistan (GoIRA)"[3]. The strategy covers a five-year period between 2016 and 2020.

19. **This paper describes how the Government will manage the reform process over this five-year period.** It provides an overall framework for reform including the mechanism to translate the PFMR-II strategy into a team-based Fiscal Performance Improvement Plan (FiPIP). This approach will play a major role in achieving the Government's self-reliance goals by, over time, making the national budget a more effective tool of national development policy including by providing more flexibility. Through this strategy, the Government will catalyse high quality resources into building a better system with relatively small levels of technical assistance and provide development partners with the basis for more effective investments.

20. **This paper is structured around three chapters.**

- The first section explains why a team based performance management system will be employed, and why a 5-year rolling-plan will be used to manage implementation of PFMR-II.
- The second section covers how the performance management system will work including the role of the Performance Management Team (PMT).
- The third and final section provides an outline of the plans for what will actually be done and by when.

[3] Page 4, PFMR Secretariat, 2015, "PFMR-II Strategy" Draft Version 3.1, Ministry of Finance, Kabul Afghanistan.

WHY TEAM-BASED PERFORMANCE MANAGEMENT AND 5 YEAR-ROLLING PLANS?

WHY TEAM BASED PERFORMANCE MANAGEMENT

21. **Team-based performance management is at heart of the Realizing Self-Reliance agenda set out at the 2014 London Conference[4].** Team-based Performance management will be designed to:

- i) ***Ensure Officials Run Ministries*** – not Advisors, Consultants or other stakeholders;
- ii) ***Improve the Quality of Spending*** – stakeholders will know why, how, what and where spending happens; and
- iii) ***Set the foundations for Donors to link more flexible financial assistance to performance*** - when conditions are right for a donor.

22. **Team-based performance management values institutional culture** as the primary determinant of institutional performance. Moreover, we believe that managing teams is more effective than managing themes as they are typically set out in a reform strategy. Focussing on teams means there are much more direct lines of reporting and accountability for results.

23. **A common question is often asked: "Why is it that some ministries around the world consistently deliver good results,** while others cannot make much progress?" When experts are asked for answers to this question, three of the most common responses are:

- Lack of ***Capacity***;
- Too much ***Corruption***; or
- ***The Culture*** is not conducive.

24. Deeper inspection of the first two hypothesises reveals inconsistencies.

Building capacity or dealing with underperformance is actually the point of these proposed reforms. It does not appear to be a valid argument that the reason for lack of capacity is lack of capacity. Although, advisors or supervisors who defend slow progress put that argument forward almost universally at one point or another.

[4] GoIRA, 2014, "Realizing Self-Reliance - Commitments to Reforms and Renewed Partnership" GoIRA, Kabul, Afghanistan.

25. **Corruption is also a result – it is not a reason.** Systemic corruption is a result of weak institutional culture and a lack of value-based leadership. Most people, given the right incentives, want to do a good job, be part of something special and be proud of their work. Get the culture right and systemic corruption will diminish, capacity will blossom and the institution and its people will earn honourable reputations. Dealing with systemic corruption is difficult, but to tackle it without tackling institutional culture first is unlikely to be successful.

26. **Culture is critical for good performance.** Good leaders set the culture and staff respond to leadership that they can believe in. Performance is always central to leadership and successful teams. Part of a good performance culture is a low tolerance for mediocrity. What this means in the development sector is zero tolerance for under-performing international advisers and technical assistance – and a low tolerance for poor performing national staff, in recognition that capacity building or professional development plans take time to bear fruit.

Box 1. Why Team Based Performance Matters

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

- **Strong Teams Deliver the Best Results**

- **Every Team and Every Team Member Matters**

- **Measuring, Rating and Ranking Performance Helps Teams Work Better** and Deliver Better Results

- **We Must Recognize Efforts of Hard Working Teams and Help Those Teams Who Need It The Most**

- **A Resilient and High Performing MoF will Help Realise a Long and Prosperous Future** for Afghanistan and All Its People

27. **Creating a conducive culture for continuous improvement in fiscal performance is as important as financial aid for fragile states.** It is a fundamental foundation and is especially important in conflict-affected states such as Afghanistan. The g7+ group of fragile and conflict affected states put forward a framework based on trust and focus, where ownership of development by developing countries themselves is the principle goal. We argue that team-based performance management is the most effective and sustainable way to create a performance-orientated culture that will help to build trust between the Government and the donors, and between the Government and the community. In essence, performance management creates incentives for ownership of policy choices. It will also help to focus efforts and resources on reforms that have a high impact and are achievable.

28. The system proposed here will use existing management systems, improving them over time. This means maintaining a relatively light touch for teams where the administrative burden is deliberately minimised to allow more time for staff to focus on reforms. Such an approach is required for fragile state environments where it is crucial to sequence reforms at the pace of the country

itself. Teams review their performance twice a year including a half-day session with an independent team of validators. Moreover, under the team-based performance management system, we are seeking to make technical assistance more efficient and effective. For example, the system does not require extensive resident technical assistance as much more emphasis is placed on peer-based dialogue around solving problems and reflecting agreements in rolling reform plans. Performance scores are weighted towards less use of technical assistance, providing a real incentive for government managers to take a critical look at how they are employing external advisers. A key indicator of progress should be a reduction in international and national technical assistance and more emphasis on developing the capacity of Tashkeel.

29. **Where to start to build a high performance institutional culture?** The "Basics First" approach to reform programming is almost 20 years old but is still as relevant as ever. In 1998, Schick, Holmes and the World Bank underscored how important it is to: ***"foster an environment that supports and demands performance"*** *(see* Attachment D: "Basics first"). This is a major goal of the team based performance management approach.

30. **Improving performance is a strategic goal but needs to be anchored in practical activities, outputs and outcomes** in the context of reforms to public financial management in Afghanistan. In addition to explaining why "team-based" performance management matters (see Box 1 above), we have also identified key goals for performance management and system building, which are set out in Box 2 below. These are common goals for any fiscal management reform plan and for any capacity building plan for a ministry of finance.

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 (budget cycle)

31. **Team based performance management is not an end in and of itself.** It is part of a broad foundation theory for positive change. The full theory is provided at **Error! Reference source not found.** but in summary the key components are:

- ***Conform to aid effectiveness principles for fragile states*** including ownership, alignment, harmonisation, managing for results, mutual accountability and the New Deals' TRUST and FOCUS priorities for working in fragile states[5];
- ***Follow the Basics First Approach*** to help prioritize and sequencing PFM reform activities over time;
- ***Target the weakest links in the continuous improvement cycle*** to ensure the system is self-improving;
- ***Utilise analytical techniques regularly to assess technical and political feasibility*** of reform options; and
- ***Introduce a Team-based Performance Management culture*** starting with integrating team-based performance management into reform program design and monitoring and evaluation systems.

32. **Introducing a team-based performance management culture is crucial**. This is because a functional performance management system will be self-correcting and self-improving. However, getting a performance culture established has proved elusive in the field of PFM reform programming. That said, team based performance management is not new, and is well accepted as effective in helping to deliver quality results – in sporting, business or public service environments. Effective leaders manage teams well, and they do that – at least in part - by holding teams to account for their performance based on a solid evidence.

33. **What is new is that a mechanism for team-based performance management in pursuit of successful PFM reform has been developed and early indications from work in a fragile state context are positive**[6]. Under a team-based approach, a credible and independent mechanism for assessing performance is utilised ensuring that good performance is rewarded while poor performance is identified and addressed. A key feature in assessing performance is testing the feasibility of proposed reforms by quantifying the likely impacts and the risk of failure. As this is a fi e year reform plan, this approach to impact and risk is integrated within the performance management cycle (every 6 months) rather than as a one off exercise at the outset to help prioritize and sequence reforms.

[5] As developed and driven by the g7+ to which Afghanistan is a member.
[6] Diamond, 2013, "Good Practice Note on Sequencing PFM Reforms", PEFA Secretariat, Washing DC, USA. A successful team-based performance management has been employed in the MOF in Timor-Leste between 2012 and 2015 with good results. See www.mof.go.tl

WHY 5-YEAR ROLLING PLANS

34. **A "rolling plan" is a finance term for "plan which is designed to continue over a period of time and is subject to regular** review and updating"[7]. Rolling plans can be financial, as in the case of medium-term budgets, where estimates of future year expenditures are rolled over every year to form a baseline for discussion on changes to policy during the annual budget process. Rolling plans can also be non-financial, where a set of prioritized and sequenced activities are reviewed regularly to assess progress and amended as appropriate.

35. **The underpinning logic** for 5 Year Rolling Plans within the context of fiscal performance improvement is threefold:

- ***Improving fiscal performance takes time*** – since reform activities need to be prioritized and sequenced over time, a plan is needed to show how the activities will be tackled over a number of years.
- ***Progress against plans is not uniform*** – some planned activities can be completed quickly and to a good standard, while others can take longer than expected to complete and/or achieve the sufficient level of quality. Some reform activities are contingent on other activities being done first. Consequently, there needs to be a routine system to adjust the plan based on progress.
- ***The budget cycle is (or should be) a continuous improvement cycle*** for the public sector - hence performance frameworks need to be set within the context of the budget process / cycle. This means that: i) at the start of the fiscal year implementing agencies are very clear about what is expected of them (i.e. the reform activities in the plan that can be funded; and ii) near the end of the fiscal year, performance is reviewed so that changes can be made to financial and non-financial plans as necessary.

[7] Collins Dictionary http://www.collinsdictionary.com/dictionary/english/rolling-plan

HOW WILL IT WORK?

THE ROLE OF THE PERFORMANCE MANAGEMENT TEAM

36. **The purpose of the Performance Management Team (PMT) is to facilitate the reform process.** It will not duplicate existing roles or take on responsibility for delivering the outcomes set out in the PFMR-II strategy. Implementation of the PFMR-II strategy will be expressed through a 5-year rolling Fiscal Performance Improvement Plan (FiPIP).

37. **Implementation of the 5-year rolling plan is the principle tool to achieve reforms**, and the Performance Management Team will facilitate a process of monitoring progress, discussing challenges and ultimately shifting resources to make sure results are achieved.

38. **The PMT will facilitate the process** by:

- ***Facilitating intensive team-based discussions*** to turn the PFMR-II strategy into team level 5 year rolling plans based around a range of agreed key performance indicators.
- ***Designing and maintaining a system for monitoring progress and rating performance***. All staff will be trained in use of the system and how their performance is being measured.
- ***Facilitating semi-annual team based performance discussions and annual performance reporting*** to the Minister and Deputy Ministers on progress with implementation of the PFM Roadmap. Teams will self-assess performance and the PMT will moderate / facilitate discussions and ensure independent validation of scores based on evidence of progress.

39. **A key objective is to help the Minister for Finance and his leadership team within the MoF introduce and manage a team-based approach** to reform planning and performance management**.** During the first, start-up year, strategic-level advisory services will be provided. It is intended that this will deliver just enough advice to keep reform on track, but with no possibility of "capacity substitution". Instead, Government officials in existing organizational units will generate reforms. It is envisaged that the PMT will be provided with additional support including training funding for a small number of government officials. It is intended that these officials will become the nucleus of the reform leadership team that will carry the work forward.

METHODOLOGY FOR ASSESSING TEAM PERFORMANCE

40. **A methodology to quantify team performance has been developed. It will achieves the objective of successful implementation**

of the PFMR-II and better fiscal performance by focussing on what matters most:

- ***Focusing on teams*** - not themes – when planning reform
- ***Measuring team performance*** regularly and in different ways
- ***Making people responsible*** for delivering team results.

41. **The approach to engagement the system will employ reflects the self-reliance agenda** – where the government sets objectives and are engaged in the assessment of performance for every team. A two-stage self-assessment process will be established. The first stage involves teams providing updates to the activity targets. The second stage involves teams scoring themselves against the performance management dimensions being tracked (set out in the next section). Each stage will be supported by independent validation by the PMT to ensure consistency across all teams and areas of reform.

42. **The measurement methodology utilises analytical techniques to assess technical and political feasibility of reform activities** to ensure both effort and resources are focussed in the right areas. By using such techniques, reforms that are more likely to succeed and have a high impact will be prioritised for funding and oversight. Moreover, it also provides the analytical foundations for high quality performance and activity risk management.

GRADING TEAM PERFORMANCE

43. **Grading performance will not only cover the actual performance of teams but also rating reform activities undertaken** for how important they are (i.e. impact) and how difficult they are (i.e. risk of failure). Overall scores are calculated by combining performance, impact and risk scores.

44. **The performance grading methodology draws on Diamond's approach**[6] to help assess viability of reform activities and to adjust performance scores to account for differences in the difficulty and importance of different activities. Two particular elements of the Diamond Approach are:

- Assess likely **impact** or importance of reform activities;
- Assess **risk of failure** or difficulty for each reform activity.

45. **The core component of the performance management system is the way raw team performance is actually assessed and quantified**. The performance scoring approach adopted is one that scores each activity against three dimensions:

- ***timeliness*** – was the activity done on time or was it late;
- ***quality*** – was the activity done to a high or low quality; and

- ***effectiveness*** – how effectively did the team deal with the problems they faced?

46. **While the first two dimension are the most common and self-explanatory, the third dimension is the most important.** Focusing on how teams manage problems while pursuing reform helps teams to understand and explain what has been achieved. In particular, it transforms the focus from teams trying to 'spin' a story that something has been achieved when it actually has not, to trying to explain how they dealt with or approached the problems they faced. ***In other words, the system provides incentives to be honest*** about how reform is really going and rewards problem solving.

47. **A fourth performance dimension will quantify the amount of international and domestic Technical Assistance** (TA) being provided in support of the reform activity. This is tracked in order to:

- ***Ensure that teams being run by Afghans with lower or no international TA are not disadvantaged*** when ranked against teams being provided with significant levels of international TA;
- ***Ensure teams that are being run with low levels of national consultants*** are not disadvantaged against teams being provided with significant levels of domestic TA;
- ***That the self-reliance agenda is a prominent component*** of the performance management system.

48. **The grading system** used will be the standard alphanumeric performance grading system often used: from D to A+, with D being worst performance and A+ being best. Both raw scores and standardized scores will be calculated.

RATING ACTIVITIES FOR IMPACT AND RISK

49. **An assessment of the impact or importance and the risk of failure or difficulty** of each reform activity will be undertaken. Scoring rules will be established for each. For example, impact will be assessed for contribution to how important it is to achieving: i) improvements in international benchmarks (e.g. PEFA and OBI) and/or perception indexes; ii) more efficient and effective public services; and iii) stability and legitimacy of Government. Scoring guidance material will be elaborated.

50. **Rating of risk of failure of an activity will be separated into six different dimensions**. This is to help deliver a more objective risk assessment rather than a subjective one based simply on opinion. These dimensions are drawn from the Diamond approach and are:

- ***Number of organisations required*** to get the job done – more organisations means a higher risk of failure.
- ***The time required*** – the longer it takes to get the job done means a higher risk of failure
- ***Complexity and scope*** – the more complex and activity or the wider the scope means a higher risk of failure
- ***Behaviour change required*** – the more behaviour change required the higher risk of failure. If a lot of change is required of a few people or a small amount of change of a lot people both imply a higher risk of failure.
- ***Visibility*** – the more visible an activity is, or how easy it is to link it to real results, means that the risk of failure is reduced (e.g. as political support makes it easier to overcome problems); and
- ***Existing Fiscal management competencies*** – the greater the capacity for performing fiscal management the lower the risk of failure.

51. **Ratings used** will be high, substantial, moderate, and low, which will all be assigned numerical equivalents. Both raw scores and standardized scores will be calculated, which are equivalent to the notions of relative impact and relative risk.

52. **These two components of risk and impact are particularly important for reform programming and team-based performance management**. Firstly, they allow for an objective assessment of the risk of failure of a reform option. Secondly, it allows high risk and high impact activities to be reviewed in a way that the risk of failure is reduced (e.g. by splitting the activity into phases). Thirdly, it facilitates team based performance management by recognising that some teams are focused on more difficult and important work compared to other teams. It also provides a solid foundation to produce defendable league tables of reform performance during implementation.

REPORTING TEAM PERFORMANCE

53. **Existing mechanisms will be used to discuss team performance.** The existing Leadership Group within the MOF, which is chaired by the Minister for Finance, will be the initial forum to report performance to, discuss issues and decide on matters relating to PFMR-II and its implementation. Agencies outside the MOF will be added as appropriate, and ultimately the Minister for Finance will report progress on the PFMRII to the Cabinet and the President.

54. **Work will first focus on establishing basic performance management capabilities** within MoF and partner ministries around business

unit reform and action plans. This will include setting medium term reform and action plans for every organizational unit within the MoF and key agencies / ministries with responsibilities for reforms under the PFMRII[8]. Units will also learn how to benchmark aspirational medium term performance targets against various international standards, such as PEFA, OBI, TADAT and Doing Business indicators for tax and customs.

[8] Initially key agencies in addition to the MOF will be IDLG, the Supreme Audit Office and the national Procurement Agency. Selected Line Ministries will be included in the performance management system based on consultation by the Minister for Finance and the relevant Minister.

WHAT WILL BE DONE AND BY WHEN?

ESTABLISHING THE PRE-CONDITIONS FOR TEAM-BASED PERFORMANCE MANAGEMENT

55. **For the team-based performance management system to work three essential pre-conditions will need to be in place** by the end of 2015 / December 1394.

- ***An initial set of annual action and time bounded reform activities grouped by teams*** /organizational units are identified – backed directly by a 5 year sequenced action plan to achieve a long-term vision.
- ***A set of medium term targets drawing from a range of international performance measures*** for PFM system quality are agreed (e.g. PEFA, open budget, revenue watch, etc) as well as some key country specific intermediate performance measures (like AFMIS expansion roll-out numbers).
- **A Credible and independent systems to assess and grade performance is in place**.

FREQUENCY OF PERFORMANCE REVIEWS

56. **Two performance reports will be produced every year.** The system is designed to be a relatively light touch approach in order to enable implementers to implement without overburdening them with unproductive reporting. There will be no micro-management by the PMT. Teams will held to account for performance through various mechanisms including league tables and defending performance verbally to the government leadership group.

57. Timing of performance assessments will be twice per year beginning in January 2016 / 1395:

- ***In the first half of the year***. To help ensure efforts are on track to deliver annual reform actions by the end of the year, but also to ensure relevance of reform activities being undertaken and validate donor performance payments for the following year; and
- ***Near the end of the year***. To assess end-of-year progress with time to spare to correct any major problems. The annual performance report will also be used as a trigger performance payments linked to reforms to be made in the following year, while also ensuring that the best estimates of any programmatic or sector budget support payments are included in the annual budget papers.

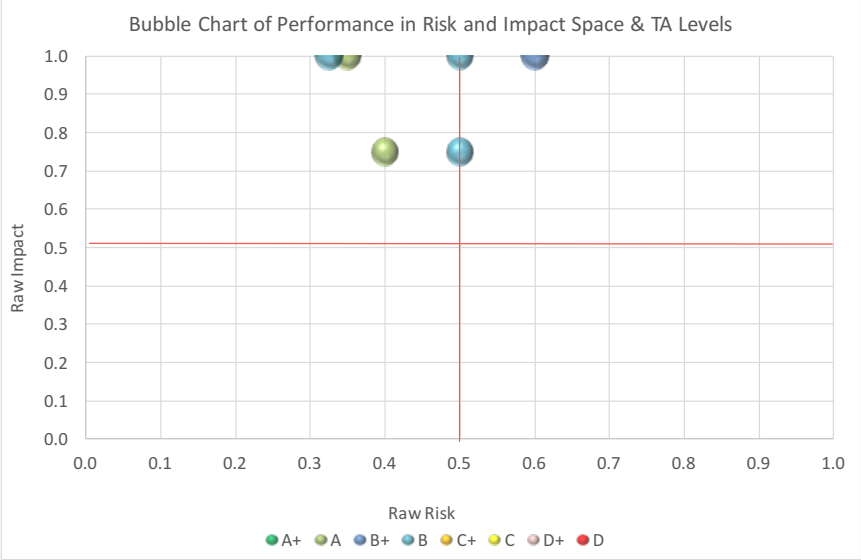
A 5-YEAR PLAN FOR THE PMT

58. **A five-year plan has been developed for establishing the PMT** and delivering its core business has been developed (see Attachment A: A 5 Year Rolling Plan for the PMT on page 27) It has also been subjected to the same risk and impact analysis that will be used for all activities. Key elements of the plan are:

- ***Some high level technical assistance will be provided*** over 18-24 months to help get the performance management system established and made routine.
- ***The twice a year performance review cycle*** within the context of the budget cycle involving a self-assessment process, dialogue arrangements and independent validation.

59. **Results of the applying the risk-impact methodology to the PMT are presented in Figure 1.** They reveal that that the major activities of the PMT are high impact with a moderate to substantial risk of failure. The major risks that emerged are from difficulties in coordinating a lot of different organisations and teams and the amount of behaviour change that is required for the system to work – a lot of people have to change a little (in terms of reporting and defending their decisions twice a year). Other risk dimensions were considered low risk due to: high visibility (strong support by the President and the Minister for Finance); moderate complexity of the system; a moderate time required to get the system basically functional; with high levels of fiscal management competencies embedded within the PMT. (See Attachment B: Impacts and Risks of Failure of activities of the PMT on page 28.)

Figure 1. Risk-Return Performance Space



ASPIRATIONAL AND GUIDING TARGETS TO SUPPORT IMPLEMENTATION OF THE PFMR-II

60. **An initial set of aspirational and guiding targets have been proposed as a first step** to take the PFMRP-II Strategy and transform it into a rolling 5-year Fiscal Performance Improvement Plan. By the end of the year, the proposed aspirational targets will be subjected to stakeholder consultation with agreements secured.

61. **There will be two types of targets**: i) aspirational international benchmarks and; ii) custom-designed medium term outcome targets.

International Benchmarks

62. **An initial set of aspirational targets against a few international benchmark standards** for quality of PFM system or component will be agreed by the end of the year. It is envisaged that four international benchmarks will have aspirational targets:

- **PEFA** – current version and the upgraded version under testing;
- **Open Budget Index**;
- **Statistical Capacity Indicator**; and
- **Doing Business on Tax and Customs**.

63. **Figure 2 below presents the trends in PEFA and PEFA-10 scores** for Afghanistan since 2005 and the initial aspirational targets MoF is considering for the medium to long term (green columns). Between 2005 and 2008, good progress was achieved in raising PEFA scores, meaning the overall quality of PFM systems has improved and the level of inherent fiduciary risks has fallen. However, from 2008 onwards, progress has plateaued. Achievable but ambitious targets have been set, recognising that it is much harder to rise to the top from the middle ground than it is to rise to the middle ground from a low base. For a complete list of the initial aspirational targets for each PEFA dimension, see Attachment C: Aspirational and Guiding Targets to support Implementation of the PFMR-II on page 30.

64. **Each team will be assigned a range of PEFA indicators** to which the team has some interest and ability to contribute to improvement. These aspirational targets and the actions needed to achieve the targets will be discussed as part of the establishment and the rolling over of the 5-year plans.

Figure 2. Aspirational Targets for PEFA and PEFA-10

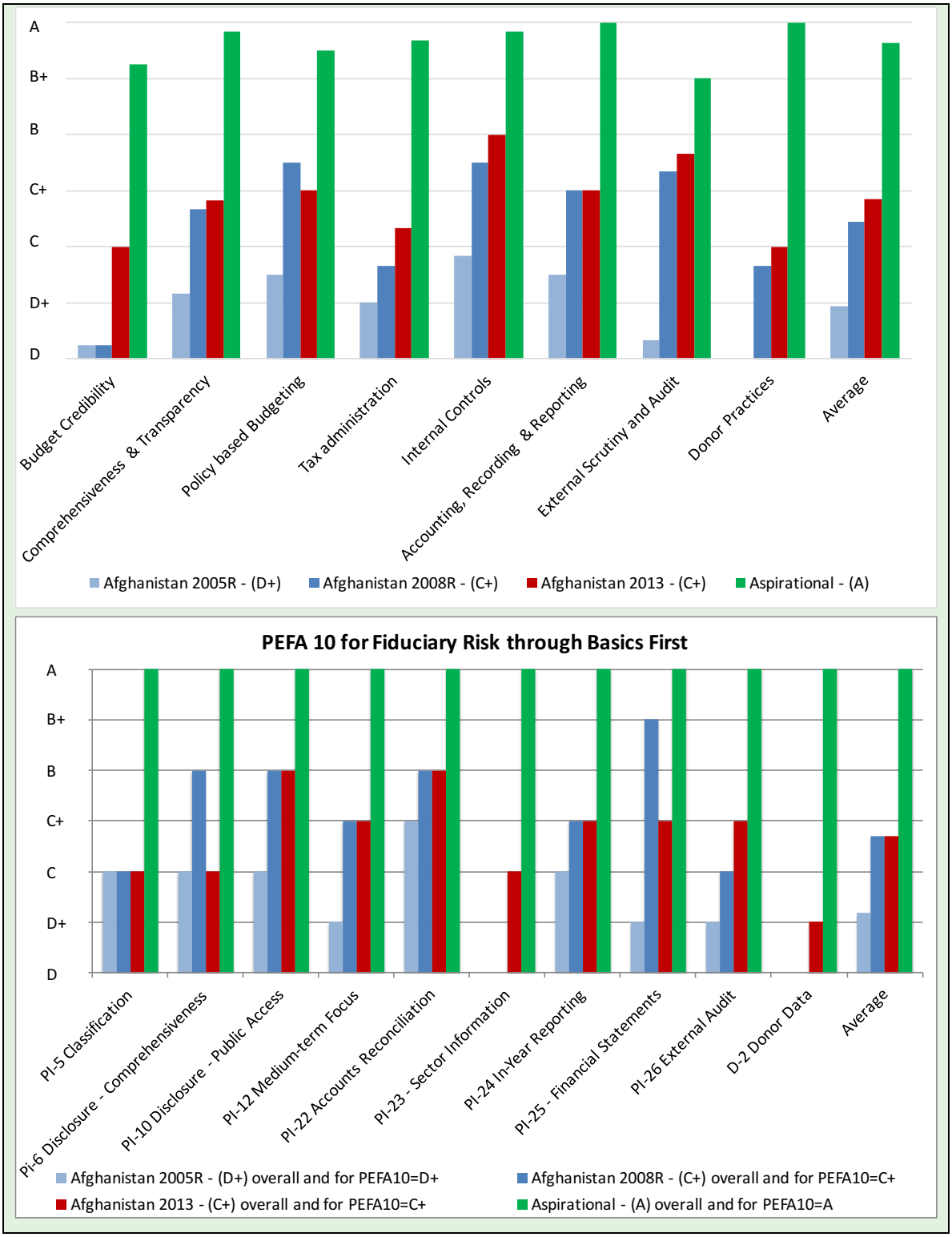
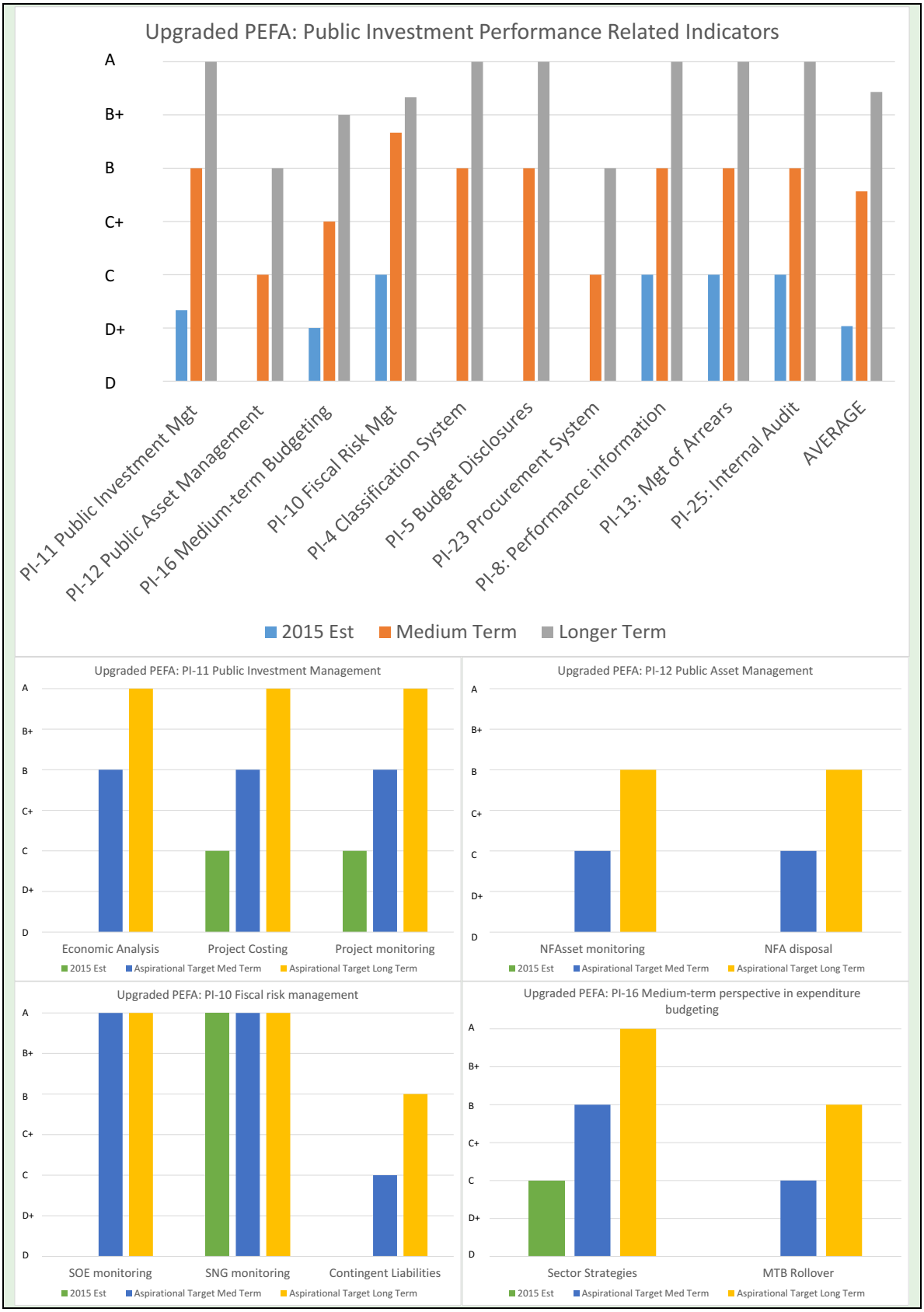


Figure 3. Selected Aspirational Targets for Upgraded PEFA

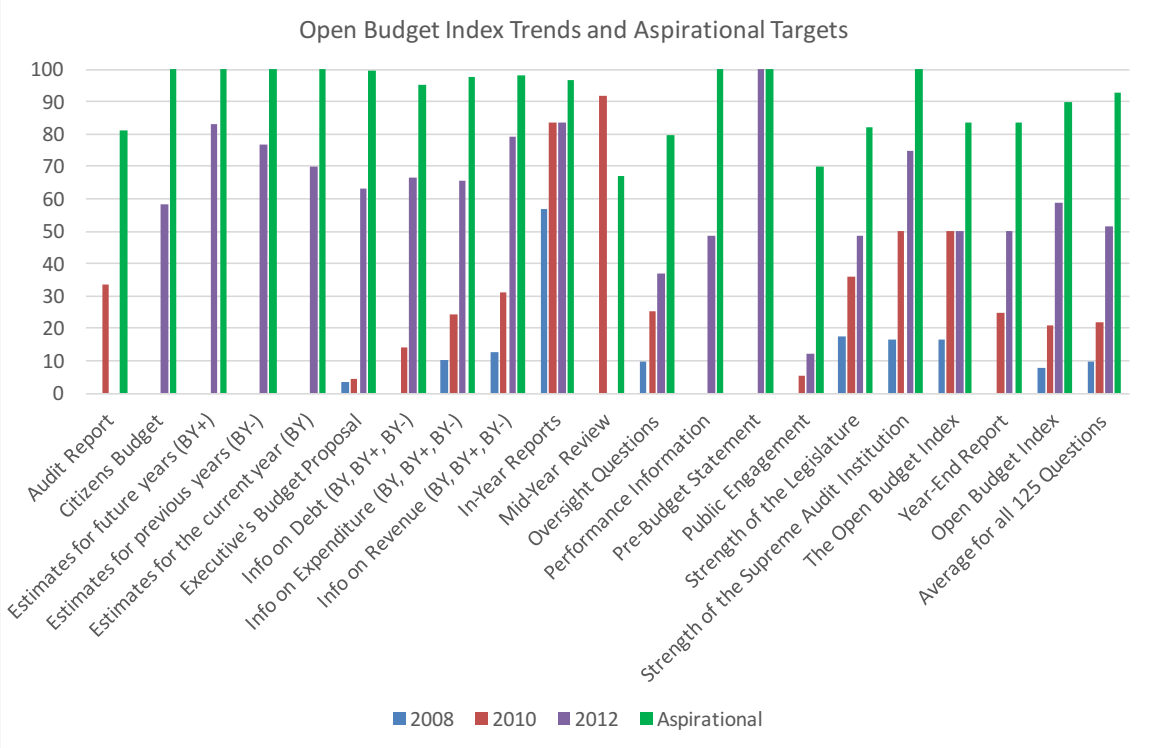


65. **Aspirational targets have also been considered for key indicators under the Upgraded PEFA**, currently being tested. The upgraded PEFA introduces new fiscal management performance indicators, previously not covered by PEFA or any other generally excepted diagnostic. Key areas covered include: i) public investment management; ii) public asset management; and iii) a key areas related to medium term budgeting and fiscal risk management. These three previously uncovered areas are particularly relevant for Afghanistan to help overcome problems including over-budgeting, weak distribution of resources and inefficient spending.

66. **An initial set of aspirational targets have also been proposed for the Open Budget Index** (OBI) – for every one of the 125 OBI questions and every one of the eighteen (18) OBI sub-groupings. This has been proposed as a step to meet eligibility conditions under the Open Government Partnership (OGP)[9].

67. **Figure 4 below reveals OBI trends since 2008 for Afghanistan and presents the proposed aspirational OBI targets** in green columns. For a complete list of the aspirational targets for each OBI, question and selected indicators under the upgraded PEFA see Attachment C: Aspirational and Guiding Targets to support Implementation of the PFMR-II on page 30.

Figure 4. Aspirational Targets for Open Budget Index



[9] OGP was launched in 2011 to provide an international platform for domestic reformers committed to making their governments more open, accountable, and responsive to citizens. Since then, OGP has grown from 8 countries to 66 participating countries. More information is at: http://www.opengovpartnership.org/

68. **OBI groupings will also been assigned to MoF teams** (see Figure 4), along with particularly relevant questions for the MoF and other relevant agencies / ministries. These targets and the actions needed to achieve the targets will be discussed as part of the rolling over of - and any adjustments to - the 5-year plans.

69. **Figure 5 below presents aspirational targets for Statistical Capacities** along with trends in Statistical Capacity Indicators since 2005. All three areas will be targeted for improvement. Further work with line ministries on performance management will enable prioritization of missing areas in statistical capacities. For a complete list of the aspirational targets for each statistical capacity indictor theme question see Attachment C: Aspirational and Guiding Targets to support Implementation of the PFMR-II on page 30.

Figure 5. Aspirational Targets for Statistical Capacities

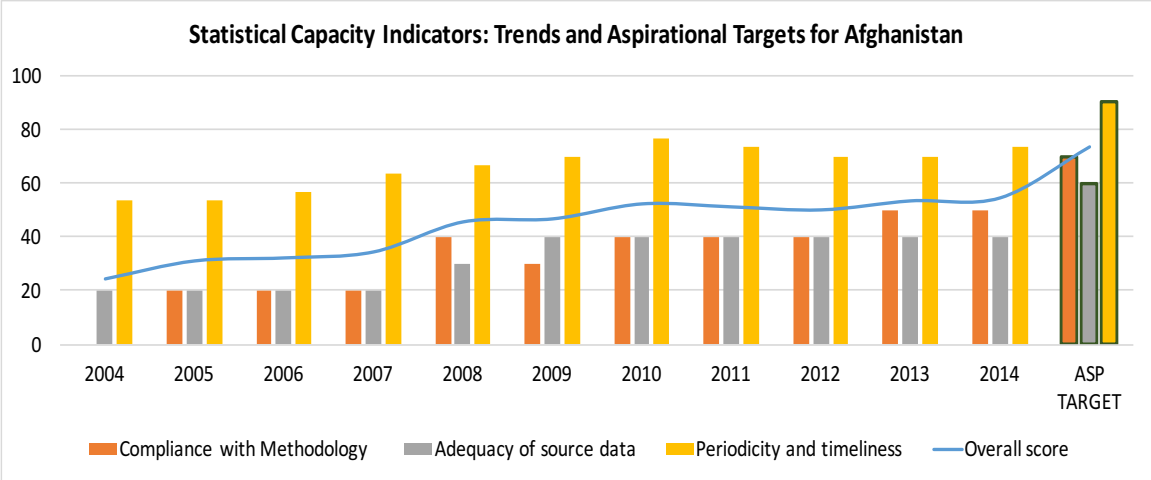
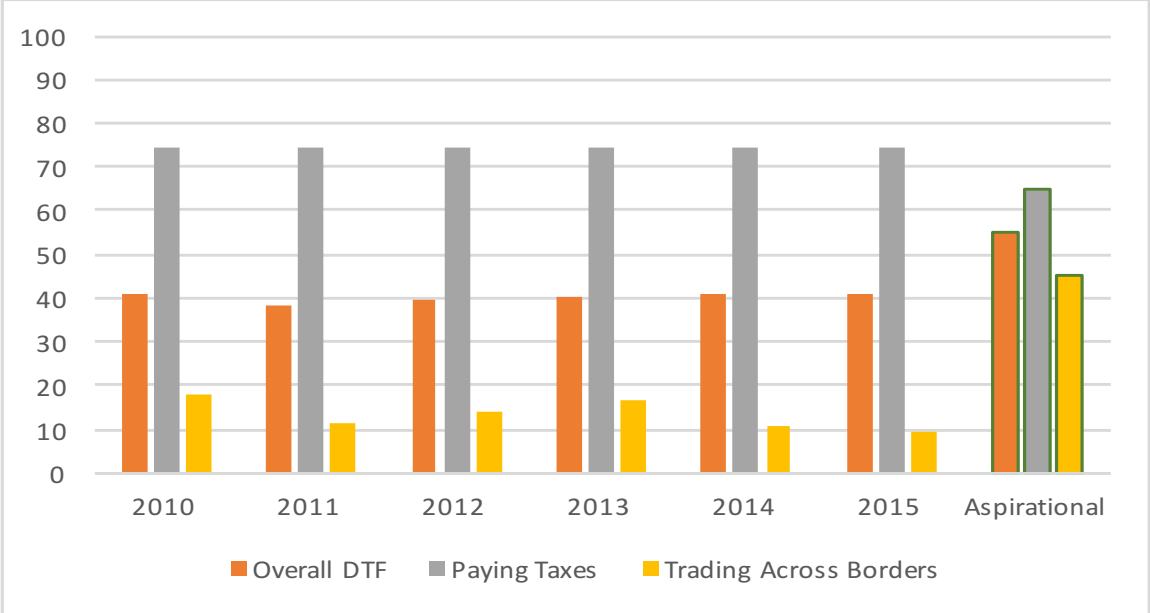


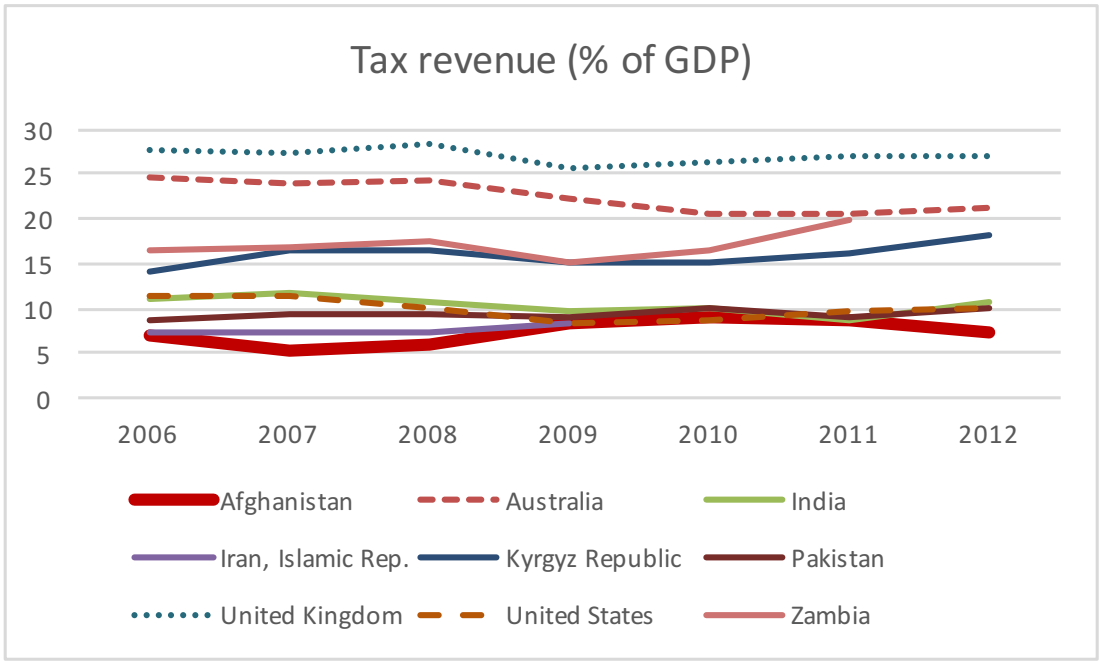
Figure 6. Doing Business: Proposed Aspirational Ranks (100 Best)



70. **Two components of Doing Business are believed to be particularly relevant as potential aspirational targets** – those areas that assess how hard (or how easy) it is to do business because of *Tax and Customs Systems*. The trends and proposed targets for these two areas are presented in Figure 6 above. Table 1 gives the underlying data that determines scores and Distances to Frontiers (DTF), where 100 is best and 0 is worst.

71. **Setting targets for tax in a country like Afghanistan has its difficulties**, since low tax is recognised as good for business by "Doing Business" and good for attracting foreign investors. However, it is also bad for revenue generation and more importantly bad for accountability systems in a country if tax is too low. That said, target levels were reviewed against other countries and it was felt the tax system in Afghanistan needs to be more onerous on business as it is rated as very lenient- arguably too lenient - especially with zero scores against profit and labour taxes. In addition, the review revealed very low levels of tax take (see Figure 7). This implies that widening and deepening the tax base through better reach, increased enforcement and new taxes are all viable reforms and policy positions. Tax targets will be reviewed in lead up to implementation.

Figure 7. Trends in Tax Collection – Selected Comparators



Source: WDI

72. **For Customs, initial aspirational targets to reduce times and costs to export and import are proposed** against current Doing Business methodologies (see Table 1). While "doing business" changes its methodologies generally every year, making it difficult to set medium term targets, aspirational and general targets are still possible. As in the case of Customs, reducing the cost and time taken to import and export are important goals. The problems emerge, when the international goal posts for calculation

keep moving. Table 3 provides the status of custom clearance times and documents with the target reduction in time taken. Pakistan, India and Iran were chosen as comparators for benchmarking purposes – particularly relevant as core trading partners. Customs targets will be reviewed in lead up to implementation.

Table 1. DB Taxes & Customs: Proposed Aspirational Targets (100 Best)

Year/DB Component und MoF Influence		2010	2011	2012	2013	2014	2015	Asp Target
Ease of Doing Business Rank								
Paying Taxes	**DTF**	74.14	74.14	74.14	74.14	74.39	74.39	65
	Payments (number per year)	20	20	20	20	20	20	12-33
	Time (hours per year)	275	275	275	275	275	275	243
	Profit tax (%)	..	..	..	..	0	0	25.3
	Labor tax and contributions (%)	..	..	..	..	0	0	20.7
	Other taxes (%)	..	..	..	..	35.8	35.8	15.7
	Total tax rate (% profit)	36.3	36.3	36.3	36.3	35.8	35.8	61.7
Trading Across Borders	**DTF**	17.71	11.26	14.1	16.97	10.76	9.21	45
	Documents to export (number)	10	10	10	10	10	10	7
	Time to export (days)	74	74	74	74	81	86	17.1
	Cost to export (US$ per container)	3,030.00	3,545.00	3,545.00	3,545.00	4,645.00	5,045.00	1332
	Documents to import (number)	4,033.50	4,820.60	4,404.90	3,984.10	4,820.30	5,045.00	1332
	Time to import (days)	10	10	10	10	10	10	10
	Cost to import (US$ per container)	77	77	77	77	85	91	21.1

Nb: Aspirational targets based on reaching levels equivalent to neighbours

Table 2. Tax Payments and Times

Tax or mandatory contribution	Payments (number)	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% profit)
Sales tax	4	78	2%	sales	35.35
Road toll tax	1		AFN 7,500	fixed fee	0.4
Vehicle registration tax	1			various	0
Fuel tax	1			in fuel price	0
Personal income tax	12	120		income	0
Corporate income tax	1	77	20%	profit	0

Table 3. Customs Documents and Times

Import documents
Bill of lading
Certificate of origin
Clean inspection report of findings
Commercial invoice
Customs export declaration
Customs transit document
Insurance certificate
NOC/ Transit permit
Packing list
Terminal handling receipts

Nature of Import Procedures	Duration (days)	US$ Cost
Documents preparation	49	680
Customs clearance and inspections	7	300
Ports and terminal handling	5	200
Inland transportation and handling	30	4,500
Totals	91	5,68
Export documents		
Bill of lading		
Certificate of origin		
Clean inspection report of findings		
Commercial invoice		
Customs export declaration		
Customs transit document		
Insurance certificate		
NOC/ Transit permit		
Packing list		
Terminal handling receipts		
Nature of Export Procedures	**Duration (days)**	**US$ Cost**
Documents preparation	49	680
Customs clearance and inspections	7	300
Ports and terminal handling	5	200
Inland transportation and handling	30	4,500
Totals	**91**	**5,680**

Custom-Designed Medium-Term Targets

73. **It is envisaged that custom-designed medium term targets will also be put in place for certain teams**. Custom targets are likely to be created for: Customs, corporate service functions, Training Centres, Internal Audit, External Audit Office and Legal functions.

ATTACHMENTS

ATTACHMENT A: A 5 YEAR ROLLING PLAN FOR THE PMT

Table 4. 5-Year Rolling Plan for PMT

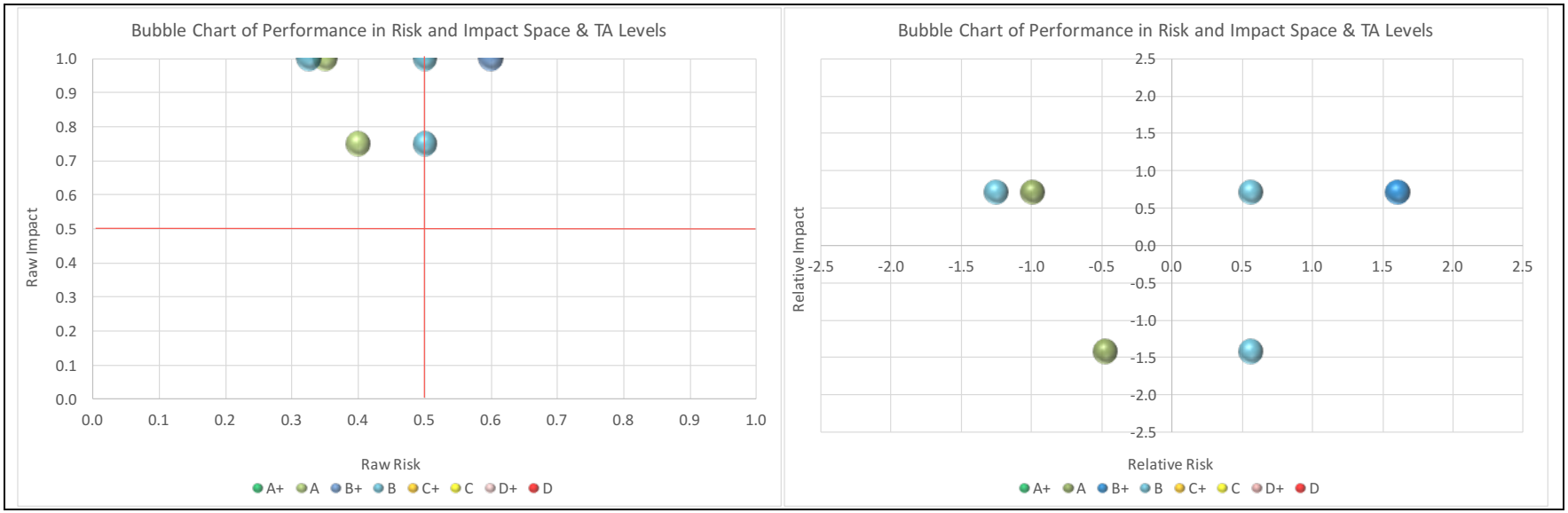
Planned Action	2015	2016	2017	2018	2019
Establish and Strengthen the PMT	Complete workplan to establish the PMT	Adjust PMT structure and professional development plans as required	Adjust PMT structure and professional development plans as required	Adjust PMT structure and professional development plans as required	Adjust PMT structure and professional development plans as required
Develop and Maintain a Performance Information Management System	Complete workplan to establish a PMIS	Enhance PMIS as required and implement systems integration plan	Review PMIS and systems integration	Review PMIS and systems integration	Review PMIS and systems integration
Establish First 5 Year Rolling Plan and Expand Reach	Complete workplan to establish a First 5 Year Rolling Plan covering all of MoF and other priority partner ministries	Expand reach of 5 year plan to more agencies as agreed	Expand reach of 5 year plan to more agencies as agreed	Expand reach of 5 year plan to more agencies as agreed	Expand reach of 5 year plan to more agencies as agreed
Run workshops on key unresolved issues	Run workshops on key unresolved issues (e.g. Forward Estimates, Allotments, Program Budgeting, and Internal Auditing etc.)	Run workshops on key unresolved issues as required	Run workshops on key unresolved issues as required	Run workshops on key unresolved issues as required	Run workshops on key unresolved issues as required
Reporting and Briefing	Brief leadership group in line with work plan	Brief leadership group in line with work plan	Brief leadership group in line with work plan	Brief leadership group in line with work plan	Brief leadership group in line with work plan
Routine PMT Operations Routine		Tracking Report (May) and Annual Performance Report (Nov) produced	Tracking Report (May) and Annual Performance Report (Nov) produced. Inclusion in Portfolio Budget Statements and Annual Reports Piloted	Tracking Report (May) and Annual Performance Report (Nov) produced. Inclusion in Portfolio Budget Statements and Annual Reports Expanded	Tracking Report (May) and Annual Performance Report (Nov) produced. Inclusion in Portfolio Budget Statements and Annual Reports Expanded

ATTACHMENT B: IMPACTS AND RISKS OF FAILURE OF ACTIVITIES OF THE PMT

Table 5. Risk Return Results for PMT

Planned Action	RISK-RETURN						
	Impact	Scope & complexity of reform	Degree of behavior change	No. of Organizations	Time required	Visibility of reform impact	PFM Competency
Establish and Strengthen the PMT	Substantial	Low	High	High	Low	High	High
Develop and Maintain a Performance Information Management System	Substantial	Moderate	High	High	Moderate	High	High
Establish First 5 Year Rolling Plan and expand reach	High	Substantial	High	High	Substantial	High	High
Run workshops on key unresolved issues	High	Moderate	Substantial	High	Moderate	Substantial	High
Reporting and Briefing	High	Moderate	Low	High	Low	High	High
Routine PMT Operations Routine	High	Low	Moderate	High	Low	High	High

Figure 8. Risk Return Performance Space



ATTACHMENT C: ASPIRATIONAL AND GUIDING TARGETS TO SUPPORT IMPLEMENTATION OF THE PFMR-II

Table 6. Aspirational PEFA Targets

	Indicator	2005R	2008R	2013	Aspirational Target
	A. PFM-OUT-TURNS: Credibility of the budget				
PI-1	**Aggregate expenditure out-turn compared to original approved budget**	**D**	**D**	**C**	**B**
	(i) The difference between actual primary [sector] expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	D	D	C	B
PI-2	**Composition of expenditure out-turn compared to original approved budget**	***D***	**D**	**D+**	**B+**
	(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	D	B
	(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	D	D	A	A
PI-3	**Aggregate revenue out-turn compared to original approved budget**	**D**	**D**	**C**	**A**
	(i) Actual domestic [sector specific non-tax] revenue collection compared to domestic revenue estimates in the original, approved budget.	D	D	C	A
PI-4	**Stock and monitoring of expenditure payment arrears**	***D+***	**D+**	**C+**	**A**
	(i) Stock of expenditure payment arrears (as a % of actual total expenditure for the corresponding fiscal year) & any recent change in the stock.	***C***	C	A	A
	(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	C	A
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	**Classification of the budget**	**C**	**C**	**C**	**A**
	(i) The classification system used for formulation, execution and reporting of the central {SN} government's budget [for the sector].	C	C	C	A
PI-6	**Comprehensiveness of information included in budget documentation**	**C**	**B**	**C**	**A**
	(i) Share of the listed information in the budget documentation most recently issued by the central {SN} government {sector Minister}	C	B	C	A
PI-7	**Extent of unreported government operations**	**D+**	**B+**	**B+**	**A**
	(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.	B	B	B	A
	(ii) Income /expenditure information on donor-funded {sector} projects which is included in fiscal reports.	D	A	A	A
PI-8	**Transparency of inter-governmental fiscal relations**	***D***	**D**	***C+***	**B+**

	Indicator	2005R	2008R	2013	Aspirational Target
	(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	D	D	C	B
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;	D	D	D	B
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	D	D	A	A
PI-9	**Oversight of aggregate fiscal risk from other public sector entities**	**D**	**D+**	**D+**	**A**
	(i) Extent of central government monitoring of AGAs and PEs.	D	D	D	A
	(ii) Extent of central government monitoring of SN government's fiscal position	D	A	A	A
PI-10	**Public access to key fiscal information**	**C**	**B**	**B**	**A**
	(i) Number of the listed elements of public access to information that is fulfilled	C	B	B	A
	C. BUDGET CYCLE				
	C(i) Policy based Budgeting				
PI-11	**Orderliness and participation in the annual budget process**	**C**	**B**	**C+**	**B+**
	(i) Existence of and adherence to a fixed budget calendar;	C	B	B	A
	(ii) Clarity/ comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	C	B	C	A
	(iii) Timely budget approval by the legislature or similarly mandated body {or Sector Minister} (within the last three years);	C	C	C	B
PI-12	**Multi-year perspective in fiscal planning, expenditure policy and budgeting**	**D+**	**C+**	**C+**	**A**
	(i) Preparation of multi -year fiscal forecasts and functional allocations	D	C	C	A
	(ii) Scope and frequency of debt sustainability analysis	C	A	A	A
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure;	D	B	C	A
	(iv) Linkages between investment budgets and forward expenditure estimates.	D	D	D	A
	C(ii) Predictability and Control in Budget Execution				
PI-13	**Transparency of taxpayer obligations and liabilities**	**D+**	**C**	**C+**	**B+**
	(i) Clarity and comprehensiveness of tax liabilities	C	C	C	A
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	C	C	B	A
	(iii) Existence and functioning of a tax appeals mechanism.	D	C	C	B
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**D+**	**C**	**C+**	**A**
	(i) Controls in the taxpayer registration system.	C	C	B	A
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	C	C	A
	(iii) Planning and monitoring of tax audit and fraud investigation programs.	D	C	C	A
PI-15	**Effectiveness in collection of tax payments**	**D+**	**D+**	**D+**	**A**

	Indicator	2005R	2008R	2013	Aspirational Target
	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	D	D	D	A
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	B	A	A
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	D	D	D	A
PI-16	**Predictability in the availability of funds for commitment of expenditures**	**D+**	**B+**	**B+**	**A**
	(i) Extent to which cash flows are forecast and monitored.	D	A	A	A
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	B	B	A
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	B	B	B	A
PI-17	**Recording and management of cash balances, debt and guarantees**	**C+**	**B+**	**B+**	**A**
	(i) Quality of debt data recording and reporting	D	B	A	A
	(ii) Extent of consolidation of the government's cash balances	C	B	B	A
	(iii) Systems for contracting loans and issuance of guarantees.	A	A	B	A
PI-18	**Effectiveness of payroll controls**	**C**	**C+**	**B**	**A**
	(i) Degree of integration and reconciliation between personnel records and payroll data.	C	B	B	A
	(ii) Timeliness of changes to personnel records and the payroll	C	B	B	A
	(iii) Internal controls of changes to personnel records and the payroll.	C	B	B	A
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	C	C	B	A
PI-19	**Competition, value for money and controls in procurement**	**D+**	**C+**	**B+**	**A**
i and ii	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	D	C	A	A
i and ii	(ii) Use of competitive procurement methods	B	B	B	A
	(iii) Public access to complete, reliable and timely procurement information	D	*C*	A	A
iii	iv) Existence of an independent administrative procurement complaints system.	D	B	B	A
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**C**	**C+**	**C+**	**B+**
	(i) Effectiveness of expenditure commitment controls.	C	B	A	A
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	C	B	A
	(iii) Degree of compliance with rules for processing and recording transactions	C	C	C	B
PI-21	**Effectiveness of internal audit**	**C**	**C**	**C**	**A**
	(i) Coverage and quality of the internal audit function.	C	C	C	A
	(ii) Frequency and distribution of reports	C	C	C	A
	(iii) Extent of management response to internal audit findings	C	C	C	A
	C(iii) Accounting, Recording and Reporting				
PI-22	**Timeliness and regularity of accounts reconciliation**	**C+**	**B**	**B**	**A**

	Indicator	2005R	2008R	2013	Aspirational Target
	(i) Regularity of bank reconciliations	C	B	B	A
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	B	B	B	A
PI-23	**Availability of information on resources received by service delivery units**	**D**	**D**	**C**	**A**
	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	D	D	C	A
PI-24	**Quality and timeliness of in-year budget reports**	**C**	**C+**	**C+**	**A**
	(i) Scope of {sector} reports in terms of coverage and compatibility with budget estimates	C	C	C	A
	(ii) Timeliness of the issue of reports	C	A	A	A
	(iii) Quality of information	C	A	A	A
PI-25	**Quality and timeliness of annual financial statements**	**D+**	**B+**	**C+**	**A**
	(i) Completeness of the financial statements	D	B	A	A
	(ii) Timeliness of submission of the financial statements	C	B	A	A
	(iii) Accounting standards used	D	A	C	A
	C(iv) External Scrutiny and Audit				
PI-26	**Scope, nature and follow-up of external audit**	**D+**	**C**	**C+**	**A**
	(i) Scope/nature of audit performed (incl. adherence to auditing standards).	D	C	C	A
	(ii) Timeliness of submission of audit reports to legislature.	C	C	B	A
	(iii) Evidence of follow up on audit recommendations.	C	C	C	A
PI-27	**Legislative scrutiny of the annual budget law**	**D**	**B+**	**B+**	**B+**
	(i) Scope of the legislature's scrutiny.	D	A	B	B
	(ii) Extent to which the legislature's procedures are well-established and respected.	D	B	A	A
	(iii) Adequacy of time for the legislature to provide a response to budget proposals .	D	B	B	A
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	D	A	B	A
PI-28	**Legislative scrutiny of external audit reports**	**D**	**C+**	**C+**	**B**
	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	D	B	C	B
	(ii) Extent of hearings on key findings undertaken by the legislature.	D	C	C	B
	(iii) Issuance of recommended actions by the legislature and implementation by the executive.	D	B	B	B
	D. DONOR PRACTICES				
D-1	**Predictability of Direct Budget Support**	**D**	**B+**	**B+**	**A**
	(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	D	B	B	A

	Indicator	2005R	2008R	2013	Aspirational Target
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	A	A	A
D-2	**Financial information provided by donors for budgeting and reporting on project and program aid**	**D**	**D**	**D+**	**A**
	(i) Completeness and timeliness of budget estimates by donors for project support.	D	D	A	A
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	D	D	D	A
D-3	**Proportion of aid that is managed by use of national procedures**	**D**	**D**	**D**	**A**
	(i) Overall proportion of aid funds to central government that are managed through national procedures (procurement, payment/ accounting, audit and reporting)	D	D	D	A

Table 7. Aspirational Targets for Selected Upgraded PEFA Indicators

Performance Indicator	2015 Est	Aspirational & Guiding Targets		Meaning			
		Medium Term	Longer Term	2015 Rating	2015 Comment	Medium Term	Longer Term
Upgraded PEFA: PI-11 Public Investment Management	**D+**	**B**	**A**				
PI11 (i) Objective economic analysis	D	B	A	The requirements for a 'C' rating or higher are not met.	Confirmed for ENV. Risk of no independent review. Independence easy to achieve. Can leapfrog to B, with guidelines also.	At least 50% of major projects in the five major investment MDAs are appraised according to economic analysis as established by national guidelines, and validated by an entity other than the sponsoring MDA.	Major capital investment projects, are appraised according to economic analysis, as established by national guidelines, and validated by an entity other than the sponsoring MDA.
PI11 (ii) Costing over the project life cycle	C	B	A	For at least 50 percent (by gross cost) of major projects, at least two MDAs with the most infrastructure projects prepare plans with full life cycle of the investment (including recurrent costs), which are discussed during the budget preparation process and included in MDA project proposals.	Will need data but the big agencies appear ok. Getting regulations done will move to B. Recurrent costs in costing, but may not get included in forward estimates.	Regulations or guidelines, that require comprehensive plans for the full life-cycle costs (including recurrent costs) of the investment to be submitted, exist and are partially implemented and included in MDA project proposals.	Regulations or guidelines, that require comprehensive plans for the full life-cycle costs (including recurrent costs) of the investment to be submitted in MDA project proposals, exist and are implemented.
PI11 (iii) Project monitoring and reporting	C	B	A	The two MDAs with the largest share of infrastructure projects have some processes in place to monitor physical and financial progress of project	B appropriate likely, C to be safe. Then move to B easy.	Major MDAs maintain databases (automated or manual), which may not be complete or entirely accurate, on approved projects, on physical and financial	Government maintains complete and accurate databases (), on approved projects, on physical and financial progress of project implementation and

Performance Indicator	2015 Est	Aspirational & Guiding Targets		Meaning			
		Medium Term	Longer Term	2015 Rating	2015 Comment	Medium Term	Longer Term
				implementation. Project monitoring reports to management are prepared on an ad hoc basis.		progress of project implementation. Project monitoring reports are made available to management at least annually.	estimates of completion rates. Project monitoring reports are made available to management at least quarterly.
Upgraded PEFA: PI-12 Public Asset Management	**D**	**C**	**B**				
PI2 (ii) Quality of central government non-financial asset monitoring	D	C	B	The requirements for a 'C' rating or higher are not met.	Not enough fixed asset registers. Makes it difficult to plan.	Fixed asset registers exist. Reports on assets are produced occasionally.	Up to date and substantially complete fixed asset registers exist. Comprehensive management and statistical reports (covering assets and related operations) are produced at least annually and disclosed.
PI2 (iii) Transparency in the sale, transfer and disposal of non-financial assets and usage rights	D	C	B	The requirements for a 'C' rating or higher are not met.	Disposal legislation unclear	The procedures for the sale, transfer or disposal of non-financial assets and asset usage rights are established in the legislation.	The procedures for the competitive and transparent sale, transfer or disposal of non-financial assets and asset usage rights are established in the legislation and are respected in the majority of cases.
Upgraded PEFA: PI-16 Medium-term perspective in expenditure budgeting	**D+**	**C+**	**B+**				
PI6 (i) Coverage and content of sector strategies	C	B	A	Sector strategies exist for sectors representing at least 25% of primary	Same as 2013	Sector strategies exist for sectors representing at least 50% of primary	Sector strategies exist for sectors representing at least 75% of primary

Performance Indicator	2015 Est	Aspirational & Guiding Targets		Meaning			
		Medium Term	Longer Term	2015 Rating	2015 Comment	Medium Term	Longer Term
				expenditure with full costing of recurrent and investment expenditure as a basis for annual and medium-term budget proposals.		expenditure with full costing of recurrent and investment expenditure as a basis for annual and medium-term budget proposals.	expenditure with full costing of recurrent and investment expenditure as a basis for annual and medium-term budget proposals.
PI6 (iii) Links between the medium-term framework and annual budgets	D	C	B	The requirements for a 'C' rating or higher are not met.	Same as 2013	Links between the medium term-framework's second year estimates and setting of the annual budget for the following fiscal year is clear, for MDAs representing 50% of primary expenditure and any major differences are explained.	Links between the medium-term framework's second year estimates and setting of the annual budget for the following fiscal year is clear, for MDAs representing 75% of primary expenditure and any major differences are explained
Upgraded PEFA: PI-10 Fiscal risk management	**C**	**B+**	**A**				
PI0 (i) Extent of central government monitoring of AGAs and PEs	D	A	A	The requirements for a 'C' rating or higher are not met.	Same as 2013	Central government receives annual audited financial reports from all AGAs and PEs and consolidates all fiscal risk issues into an annual (or more frequent) report, including a discussion of AGAs and PEs quasi-fiscal activities.	Central government receives annual audited financial reports from all AGAs and PEs and consolidates all fiscal risk issues into an annual (or more frequent) report, including a discussion of AGAs and PEs quasi-fiscal activities.
PI0 (ii) Extent of central government monitoring of SNGs' fiscal position	A	A	A	SNG cannot generate fiscal liabilities for central government OR the net fiscal position is	Same as 2013	SNG cannot generate fiscal liabilities for central government OR the net fiscal position is	SNG cannot generate fiscal liabilities for central government OR the net fiscal position is

Performance Indicator	2015 Est	Aspirational & Guiding Targets		Meaning			
		Medium Term	Longer Term	2015 Rating	2015 Comment	Medium Term	Longer Term
				monitored at least annually for all levels of SNG and central government consolidates overall fiscal risk into annual (or more frequent) reports.		monitored at least annually for all levels of SNG and central government consolidates overall fiscal risk into annual (or more frequent) reports.	monitored at least annually for all levels of SNG and central government consolidates overall fiscal risk into annual (or more frequent) reports.
PI0 (iii) Extent of central government monitoring of explicit contingent liabilities from central government programs and projects	D	C	B	The requirements for a 'C' rating or higher are not met.	No contingent liabilities being tracked.	Explicit contingent liabilities (including PPPs) arising from central government programs/projects are quantified and information is collected by a central agency.	Explicit contingent liabilities (including PPPs) arising from central government programs/projects are quantified and consolidated into an annual report.
Upgraded PEFA: PI-4 Classification of the budget	**D**	**B**	**A**				
PI-4 (i) Extent to which the classification system used for formulation, execution and reporting of the central government's budget is consistent with international standards.	D	B	A	The requirements for a 'C' rating or higher are not met.	Downgraded from 2013 due to comparability of budgets and accounts and application to current and capital budgets.	Budget formulation, execution and reporting is based on administrative, economic (at least level 3 of the GFS standard – 3 digits) and full functional/sub-functional classification, using GFS/COFOG standards or a classification that can produce consistent documentation according to those standards.	Budget formulation, execution and reporting is based on ALL levels of administrative, economic and functional classification using GFS/COFOG standards, or a classification that can produce consistent documentation according to those standards and is fully consistent with all classifications used for reporting financial information. Program classification may substitute for sub-

Performance Indicator	2015 Est	Aspirational & Guiding Targets		Meaning			
		Medium Term	Longer Term	2015 Rating	2015 Comment	Medium Term	Longer Term
							functional classification, if it is applied with a level of detail at least corresponding to sub-functional classification.
Upgraded PEFA: PI-5: Comprehensiveness of information included in budget documentation	**D**	**B**	**A**				
PI-5 (i) Share of the above listed information in the executive's annual budget proposals most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).	D	B	A	The requirements for a 'C' rating or higher are not met.	Downgraded from 2013 due to incomplete basic elements of the budget disclosures.	Budget documentation fulfills all basic elements (1-4) and at least 3 of the additional elements (e.g. Fiscal Risks from PPPs etc).	Budget documentation fulfills all basic elements (1-4) and at least 6 of the additional elements (e.g. Fiscal Risks and contingent liabilities from PPPs etc).
Upgraded PEFA: PI-23 Transparency, competition and complaints mechanisms in procurement	**D**	**C**	**B**				
P23 (i) Monitoring the efficiency and effectiveness of the procurement system	D	C	B	The requirements for "C" rating or higher are not met.	WB contract database not comprehensive. E-Procurement does not cover.	Databases (or records) are maintained for contracts representing at least 50% of expenditure on goods, services and works, including both data elements above. Analysis of this data is made available to management ad hoc.	Databases (or records) are maintained for contracts representing at least 75% of value of procurement of goods, services and works, including both data elements above. Analysis of this data is made available to

Performance Indicator	2015 Est	Aspirational & Guiding Targets		Meaning			
		Medium Term	Longer Term	2015 Rating	2015 Comment	Medium Term	Longer Term
							management at least annually.
Upgraded PEFA: PI-8: Performance information for achieving efficiency in service delivery	**D+**	**B**	**A**				
PI-8 (i) Disclosure of annual performance targets for service delivery	C	B	A	Performance targets are presented for 10-25% of service delivery functions OR coverage is more than 25% but with deficiencies in the format or definition of the targets (outputs) or in the methods of measurement.	Different to PI23.	Performance targets are presented in a format which is clear about what is being measured (outputs) and how it is to be measured (method of calculation and data sources) for 25-50% of service delivery functions.	Performance targets are presented in a format which is clear about what is being measured (outputs) and how it is to be measured (method of calculation and data sources) for more than 50% of service delivery functions.
PI-8 (ii) Disclosure of data on performance results achieved by service	C	B	A	Performance targets are presented for 10-25% of service delivery functions OR coverage is more than 25% but with deficiencies in the format or definition of the targets (outputs) or in the methods of measurement.	Different to PI23.	Performance targets are presented in a format which is clear about what is being measured (outputs) and how it is to be measured (method of calculation and data sources) for 25-50% of service delivery functions.	Performance targets are presented in a format which is clear about what is being measured (outputs) and how it is to be measured (method of calculation and data sources) for more than 50% of service delivery functions.
PI-8 (iii) Monitoring of resources received by service delivery units	C	B	A	A system exists, for less than 25% of service delivery functions, that monitors if resources have reached service delivery units as planned.	Same score for PI23	A system exists, for 25-50% of service delivery functions, that monitors if resources have reached service delivery units as planned.	A system exists, in more than 50% of service delivery functions, that monitors if resources have reached service delivery units as planned

Performance Indicator	2015 Est	Aspirational & Guiding Targets		Meaning			
		Medium Term	Longer Term	2015 Rating	2015 Comment	Medium Term	Longer Term
PI-8 (iv) Content and coverage of independent performance evaluations	D	C	A	The requirements for a 'C' rating or higher are not met.	Different to PI23. Independence criteria not met.	Independent performance evaluations for less than 25% of service delivery function have been undertaken in the last three financial years, and include recommendations for enhancing delivery.	Independent performance evaluations for more than 50% of service delivery functions have been undertaken in the last three financial years, and include recommendations for enhancing delivery.
Upgraded PEFA: PI-13: Management and reporting of debt and expenditure arrears	**C**	**B**	**A**				
PI-13 (iv) Stock and monitoring of expenditure arrears	C	B	A	Data on the stock of arrears has been generated by at least one comprehensive ad hoc exercise within the last two years.	NR on PI4=D. Survey is now more than 2 years old.	Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions. This data demonstrates that the stock of arrears is no more than 10% of total expenditure.	Complete data on the stock of arrears is generated at least at the end of each fiscal year and includes an age profile - and demonstrates that the stock of arrears is no more than 2% of total expenditure.
Upgraded PEFA: PI-25: Effectiveness of internal audit	**D+**	**B**	**A**				
PI-25 (i) Coverage of the internal audit function (percentages quoted refer to).	C	B	A	Internal audit is operational for central government entities representing at least 50% of total budgeted expenditures and for	Same as 2013. Still appropriate.	Internal audit is operational for central government entities representing at least 75% of total budgeted expenditures and for	Internal audit is operational for all central government entities.

Performance Indicator	2015 Est	Aspirational & Guiding Targets		Meaning			
		Medium Term	Longer Term	2015 Rating	2015 Comment	Medium Term	Longer Term
				entities collecting at least 50% of government revenue.		entities collecting at least 75% of government revenue.	
PI-25 (ii) Implementation of audits and distribution of reports (percentages quoted refer to the average rate of completion of audit plans for all audited entities).	C	B	A	At least 50% of audit plan engagements are completed, as evidenced by distribution of the reports to the appropriate parties.	Same as 2013. Still appropriate.	At least 75% of audit plan engagements are completed, as evidenced by distribution of the reports to the appropriate parties.	At least 90% of audit plan engagements are completed, as evidenced by distribution of the reports to the appropriate parties.
PI-25 (iii) Extent of management response to internal audit findings.	C	B	A	There is clear evidence of effective and timely follow up of internal audit findings by management of 50% of the entities audited in the last financial year.	Same as 2013. Still appropriate.	There is clear evidence of effective and timely follow up of internal audit findings by management of 75% of the entities audited in the last financial year.	There is clear evidence of effective and timely follow up of internal audit findings by management of 90% of the entities audited in the last financial year.
PI-25 (iv) Nature of audit performed and adherence to professional standards.	D	C	A	The requirements for a 'C' rating or higher are not met.	Not sufficient coverage of standards across government.	Internal audit activities consist primarily of ex-post reviews focused on financial compliance.	A quality assurance process is in place within the internal audit function. There is evidence that assurance activities meet professional standards, including following a risk-based audit plan.

Table 8. Aspirational OBI Targets

No.	Question	2008	2010	2012	Aspirational
1	Does the Executive's Budget Proposal or any supporting budget documentation present expenditures for the budget year that are classified by administrative unit (that is, by ministry, department, or agency)?	0	0	100	100
2	Does the Executive's Budget Proposal or any supporting budget documentation present expenditures for the budget year by functional classification?	0	0	33	100
3	Does the Executive's Budget Proposal or any supporting budget documentation present expenditures for the budget year that are presented by economic classification?	0	0	100	100
4	Does the Executive's Budget Proposal or any supporting budget documentation present expenditures for individual programs for the budget year?	0	0	100	100
5	In the Executive's Budget Proposal or any supporting budget documentation are estimates of the aggregate level of expenditure presented for a multi-year period (at least two years beyond the budget year)?	0	0	100	100
6	In the Executive's Budget Proposal or any supporting budget documentation is more detail in addition to the aggregate level presented for expenditure estimates that cover a multi-year period (for at least two years beyond the budget year)?	0	0	33	100
7	Does the Executive's Budget Proposal or any supporting budget documentation identify the different sources of tax revenue (such as income tax or VAT) for the budget year?	0	0	100	100
8	Does the Executive's Budget Proposal or any supporting budget documentation identify the different sources of non-tax revenue (such as grants, property income, and sales of government-produced goods and services) for the budget year?	0	0	0	100
9	In the Executive's Budget Proposal or any supporting budget documentation are estimates of the aggregate level of revenue presented for a multi-year period (at least two years beyond the budget year)?	0	0	100	100
10	In the Executive's Budget Proposal or any supporting budget documentation is more detail in addition to the aggregate level presented for revenue estimates that cover a multi-year period (for at least two years beyond the budget year)?	0	0	100	100
11	Does the Executive's Budget Proposal or any supporting budget documentation present data on the total government debt outstanding for the budget year?	0	0	33	100
12	Does the Executive's Budget Proposal or any supporting budget documentation present interest payments on the debt for the budget year?	0	0	100	100
13	Does the Executive's Budget Proposal or any supporting budget documentation present information related to the composition of government debt (such as interest rates on the debt, maturity profile of the debt, currency denomination of the debt, or whether it is domestic or external debt) for the budget year?	0	0	67	100
14	Does the Executive's Budget Proposal or any supporting budget documentation present the macroeconomic forecast upon which the budget projections are based?	0	0	67	100
15	Does the Executive's Budget Proposal or any supporting budget documentation show the impact of different macroeconomic assumptions (i.e., sensitivity analysis) on the budget (including impacts on expenditures, revenues, and debt)?	0	0	67	100

No.	Question	2008	2010	2012	Aspirational
16	Does the Executive's Budget Proposal or any supporting budget documentation present information for at least the budget year that shows how policy proposals, as distinct from existing policies, affect expenditures?	0	0	33	100
17	Does the Executive's Budget Proposal or any supporting budget documentation present information for at least the budget year that shows how policy proposals, as distinct from existing policies, affect revenues?	0	0	33	100
18	Does the Executive's Budget Proposal or any supporting budget documentation present expenditures for the year preceding the budget year (BY-1) that are classified by administrative unit (that is, by ministry, department, or agency)?	0	0	100	100
19	Does the Executive's Budget Proposal or any supporting budget documentation present expenditures for the year preceding the budget year (BY-1) that are classified by functional classification?	0	0	33	100
20	Does the Executive's Budget Proposal or any supporting budget documentation present expenditures for the year preceding the budget year (BY-1) that are classified by economic classification?	0	0	33	100
21	Does the Executive's Budget Proposal or any supporting budget documentation present expenditures for individual programs for the year preceding the budget year (BY-1)?	0	0	100	100
22	In the Executive's Budget Proposal or any supporting budget documentation, how many months of data on actual expenditures are reflected in the expenditure estimates of the year prior to the budget year (BY-1)?	0	0	0	100
23	In the Executive's Budget Proposal or any supporting budget documentation are estimates of the aggregate level of expenditure presented for more than one year prior to the budget year (that is, BY-2 and prior years)?	0	0	100	100
24	Does the Executive's Budget Proposal or any supporting budget documentation present more detail in addition to the aggregate level for expenditure estimates that cover more than one year prior to the budget year (that is, BY-2 and prior years)?	0	0	67	100
25	In the Executive's Budget Proposal or any supporting budget documentation, what is the most recent year presented for which all expenditures reflect actual outcomes?	0	0	100	100
26	Are the expenditure estimates for the years prior to the budget year adjusted as needed to be comparable with the budget-year estimates in terms of classification and presentation?	0	0	100	100
27	Does the Executive's Budget Proposal or any supporting budget documentation identify the different sources of tax revenue (such as income tax or VAT) for the year preceding the budget year (BY-1)?	0	0	67	100
28	Does the Executive's Budget Proposal or any supporting budget documentation identify the different sources of non-tax revenue (such as grants, property income, and sales of goods and services) for the year preceding the budget year (BY-1)?	0	0	67	100
29	In the Executive's Budget Proposal or any supporting budget documentation, how many months of data on actual revenues are reflected in the revenue estimates of the year prior to the budget year (BY-1)?	0	0	100	100
30	In the Executive's Budget Proposal or any supporting budget documentation are estimates of the aggregate level of revenues presented for more than one year prior to the budget year (that is, BY-2 and prior years)?	0	0	100	100
31	In the Executive's Budget Proposal or any supporting budget documentation is more detail in addition to the aggregate level presented for revenue estimates for more than one year prior to the budget year (that is, BY-2 and prior years)?	0	0	67	100

No.	Question	2008	2010	2012	Aspirational
32	In the Executive's Budget Proposal or any supporting budget documentation, what is the most recent year presented for which all revenues reflect actual outcomes?	0	0	100	100
33	Does the Executive's Budget Proposal or any supporting budget documentation present information related to the government debt for the year preceding the budget year?	0	0	67	100
34	In the Executive's Budget Proposal or any supporting budget documentation, what is the most recent year presented for which the debt figures reflect actual outcomes?	0	0	100	100
35	Does the Executive's Budget Proposal or any supporting budget documentation present information on extra-budgetary funds for at least the budget year?	0	0	-1	100
36	Does the Executive's Budget Proposal or any supporting budget documentation present information on intergovernmental transfers for at least the budget year?	0	0	-1	100
37	Does the Executive's Budget Proposal or any supporting budget documentation present information on transfers to public corporations for at least the budget year?	0	0	100	100
38	Does the Executive's Budget Proposal or any supporting budget documentation present information on quasi-fiscal activities for at least the budget year?	0	0	-1	100
39	Does the Executive's Budget Proposal or any supporting budget documentation present information on financial assets held by the government?	0	0	0	100
40	Does the Executive's Budget Proposal or any supporting budget documentation present information on nonfinancial assets held by the government?	0	0	33	100
41	Does the Executive's Budget Proposal or any supporting budget documentation present information on expenditure arrears for at least the budget year?	0	0	0	100
42	Does the Executive's Budget Proposal or any supporting budget documentation present information on contingent liabilities (such as government loan guarantees)?	0	0	33	100
43	Does the Executive's Budget Proposal or any supporting budget documentation present information on future liabilities, such as civil service pensions?	0	0	0	100
44	Does the Executive's Budget Proposal or any supporting budget documentation provide details on the sources of donor assistance, both financial and in-kind?	0	0	33	100
45	Does the Executive's Budget Proposal or any supporting budget documentation present information on tax expenditures for at least the budget year?	0	0	0	100
46	Does the Executive's Budget Proposal or any supporting budget documentation identify all earmarked revenues?	0	0	100	100
47	What percentage of expenditure in the budget year is dedicated to spending on secret items relating to, for instance, national security and military intelligence?	0	0	67	100
48	Does the Executive's Budget Proposal or any supporting budget documentation explain how the proposed budget is linked to government's stated policy goals, by administrative unit or functional category, for the budget year?	0	0	67	100

No.	Question	2008	2010	2012	Aspirational
49	Does the Executive's Budget Proposal or any supporting budget documentation explain how the proposed budget is linked to government's stated policy goals for a multi-year period (for at least two years beyond the budget year)?	0	0	33	100
50	Does the Executive's Budget Proposal or any supporting budget documentation present nonfinancial data, such as the number of beneficiaries, for expenditure programs?	0	0	100	100
51	Are the nonfinancial data presented useful for assessing how an expenditure program is performing?	0	0	100	100
52	Does the Executive's Budget Proposal or any supporting budget documentation contain performance indicators for expenditure programs?	0	0	100	100
53	Are the performance indicators sufficiently well designed, such that one can assess whether there has been progress toward meeting policy goals?	0	0	67	100
54	Are performance indicators used in conjunction with performance targets presented in the Executive's Budget Proposal or any supporting budget documentation?	0	0	67	100
55	Does the Executive's Budget Proposal or any supporting budget documentation present information on policies (both proposals and existing commitments) that are intended to benefit directly the country's most impoverished populations in at least the budget year?	0	0	33	100
56	How far in advance of the release of the budget is the day of its release known?	0	100	100	100
57	Does the executive release to the public its timetable for formulating the Executive's Budget Proposal (that is, a document setting deadlines for submissions from other government entities, such as line ministries or subnational government, to the Ministry of Finance or whatever central government agency is in charge of coordinating the budget's formulation)?	100	100	100	100
58	Does the executive adhere to its timetable for the preparation and release of the budget?	100	67	67	67
59	Does the executive hold consultations with members of the legislature as part of its process of determining budget priorities?	33	0	0	67
60	When does the executive release a Pre-Budget Statement to the public?	0	0	100	100
61	Does the Pre-Budget Statement describe the government's macroeconomic and fiscal framework?	0	0	100	100
62	Does the Pre-Budget Statement describe the government's policies and priorities that will guide the development of detailed estimates for the upcoming budget?	0	0	100	100
63	How often does the executive release to the public In-Year Reports on actual expenditure (organized by administrative unit, economic classification, and/or function)?	100	100	100	100
64	What share of expenditure is covered by In-Year Reports on actual expenditure (organized by administrative unit, economic classification, and/or function)?	100	100	100	100
65	What is the most detail provided in the In-Year Reports on actual expenditures organized by administrative unit?	67	33	100	100
66	Do the In-Year Reports released to the public compare actual year-to-date expenditures with either the original estimate for that period (based on the enacted budget) or the same period in the previous year?	0	100	100	100
67	How often does the executive release to the public In-Year Reports on actual revenue collections by source of revenue?	100	100	100	100

No.	Question	2008	2010	2012	Aspirational
68	What share of revenue is covered by the In-Year Reports on actual revenue collections?	100	100	100	100
69	Do the In-Year Reports released to the public compare actual year-to-date revenue collections with either the original estimate for that period (based on the enacted budget) or the same period in the previous year?	0	100	100	100
70	Does the executive release to the public In-Year Reports on actual borrowing?	0	100	100	100
71	Do In-Year Reports released to the public on actual borrowing present information related to the composition of government debt (such as interest rates on the debt, maturity profile of the debt, and currency denomination of the debt) for the budget year?	0	0	0	67
72	For In-Year Reports on actual expenditure released to the public by the executive, how much time typically elapses between the end of the reporting period and when the report is released (e.g., are quarterly reports released less than four weeks after the end of the quarter)?	100	100	33	100
73	Does the executive release to the public a Mid-Year Review of the budget that discusses the changes in economic outlook since the budget was enacted?	0	100	0	67
74	Does the executive release to the public a Mid-Year Review of the budget that includes updated expenditure estimates for the budget year underway?	0	100	0	67
75	What is the most detail provided in the Mid-Year Review for expenditures?	0	67	0	67
76	Does the executive release to the public a Mid-Year Review of the budget that includes updated revenue estimates for the budget year underway?	0	100	0	67
77	How long after the end of the budget year does the executive release to the public a Year-End Report that discusses the budget's actual outcome for the year?	100	100	100	100
78	In the Year-End Report have the data on the actual outcomes been audited?	0	0	0	100
79	Does the Year-End Report explain the differences between the enacted levels (including in-year changes approved by the legislature) and the actual outcome for expenditures?	0	0	67	100
80	What level of detail is the focus of the explanation of the differences between the enacted levels and the actual outcome for expenditures presented in the Year-End Report?	0	0	67	100
81	Does the Year-End Report explain the differences between the enacted levels (including in-year changes approved by the legislature) and the actual outcome for revenues?	0	100	67	100
82	Does the Year-End Report explain the differences between the original macroeconomic forecast for the fiscal year and the actual outcome for that year?	0	67	33	100
83	Does the Year-End Report explain the differences between the original estimates of nonfinancial data and the actual outcome?	0	0	0	100
84	Does the Year-End Report explain the differences between the original performance indicators and the actual outcome?	0	0	0	100
85	Does the Year-End Report explain the differences between the enacted level of funds intended to benefit directly the country's most impoverished populations and the actual outcome?	0	0	0	100
86	Does the Year-End Report present the actual outcome for extra-budgetary funds?	0	0	-1	100
87	How long after the end of the fiscal year are the final annual expenditures of national departments audited and the results of the audits (except for secret programs) released to the public?	0	67	0	100

No.	Question	2008	2010	2012	Aspirational
88	Two years after the end of a fiscal year, what percentage of annual expenditures has been audited and included in (except for secret programs) the Audit Report(s) released to the public?	0	67	0	100
89	Does the annual Audit Report(s) that is released to the public include an executive summary?	0	100	0	100
90	Must a branch of government other than the executive (such as the legislature or the judiciary) give final consent before the head of the supreme audit institution (SAI) can be removed from office?	0	0	0	100
91	Does the supreme audit institution (SAI) release to the public audits of extra-budgetary funds?	0	0	0	67
92	Beyond the established year-end attestation audits, does the supreme audit institution (SAI) have the discretion in law to undertake those audits it may wish to?	0	0	100	100
93	Who determines the budget of the supreme audit institution (SAI)?	67	100	100	100
94	Does the supreme audit institution (SAI) employ designated staff to undertake audits of the central government agencies pertaining to the security sector (military, police, intelligence services)?	0	100	100	100
95	Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action?	0	0	0	67
96	Are Audit Reports of the annual accounts of the security sector (military, police, intelligence services) and other secret programs provided to the legislature (or relevant committee)?	0	0	0	67
97	Does the legislature have internal capacity to conduct budget analyses or access to independent research capacity for such analyses?	-1	-1	67	67
98	Does the legislature formally debate the overall budget policy prior to the tabling of the Executive's Budget Proposal?	-1	-1	33	67
99	How far in advance of the start of the budget year does the legislature receive the Executive's Budget Proposal?	67	67	33	67
100	Does the legislature have the authority in law to amend the Executive's Budget Proposal?	0	33	67	67
101	What is the highest level of detail provided for appropriations (expenditure budget) in the Enacted Budget approved by the legislature?	67	100	100	100
102	Is the executive required by law or regulation to seek input from the legislature when it shifts funds between administrative units that receive explicit funding through the annual budget?	0	100	33	100
103	Is the executive required seek input from the legislature when it shifts funds between line items (except when the amounts are below a certain minimal level specified in law or regulation)?	-1	-1	0	67
104	What legal or regulatory restrictions are in place on the executive's discretion to spend excess revenue that may become available during the budget execution period?	-1	-1	100	100
105	When does the legislature typically approve supplemental budgets?	-1	100	100	100
106	When does the legislature approve the expenditure of contingency funds or other funds for which no specific purpose was identified in the Enacted Budget?	100	100	0	100
107	Does a committee of the legislature view and scrutinize the audit reports?	0	0	100	100
108	Does either the supreme audit institution or legislature release to the public a report that tracks actions taken by the executive to address audit recommendations?	0	0	0	67
109	What is the most detail provided by the Citizens Budget?	0	0	100	100

No.	Question	2008	2010	2012	Aspirational
110	How is the Citizens Budget disseminated to the public?	-1	-1	100	100
111	Are the public's priorities on budget information taken into consideration by the executive while drafting the Citizens Budget?	-1	-1	0	100
112	Are Citizens Budget throughout the budget process?	-1	-1	33	100
113	Does the executive make available to the public accessible, nontechnical definitions of terms used in the budget and other budget-related documents (for instance, in a glossary)?	33	0	0	100
114	Is the executive formally required to engage with the public during the budget process?	-1	-1	33	67
115	Does the executive clearly, and in a timely manner, articulate its purpose for engaging the public during the budget formulation and execution processes?	-1	-1	33	100
116	Has the executive established practical and accessible mechanisms to identify the public's perspective on budget priorities?	-1	-1	33	67
117	Has the executive established practical and accessible mechanisms to identify the public's perspective on budget execution?	-1	-1	0	67
118	Does the executive provide formal, detailed feedback to the public on how its inputs have been used to develop budget plans and improve budget execution?	-1	-1	0	67
119	Does a legislative committee (or committees) hold public hearings on the macroeconomic and fiscal framework presented in the budget in which testimony from the executive branch and the public is heard?	0	33	0	67
120	Do legislative committees hold public hearings on the individual budgets of central government administrative units (i.e., ministries, departments, and agencies) in which testimony from the executive branch is heard?	0	33	33	67
121	Does a legislative committee (or committees) hold public hearings on the individual budgets of central government administrative units (i.e., ministries, departments, and agencies) in which testimony from the public is heard?	0	0	0	67
122	Do the legislative committees that hold public hearings release reports to the public on these hearings?	0	0	0	67
123	Does the supreme audit institution (SAI) maintain formal mechanisms through which the public can participate in the audit process?	0	0	0	67
124	Does the SAI maintain any communication with the public regarding its audit reports beyond simply making these reports publicly available?	-1	-1	0	67
125	Does the supreme audit institution (SAI) provide formal, detailed feedback to the public on how their inputs have been used to determine its audit program or in audit reports?		-1	0	67

Table 9. Statistical Capacity Indicators

SCI	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	ASP TARGET
Overall score	24	31	32	34	46	47	52	51	50	53	54	73
Compliance with Methodology	0	20	20	20	40	30	40	40	40	50	50	70
Adequacy of source data	20	20	20	20	30	40	40	40	40	40	40	60
Periodicity and timeliness	53	53	57	63	67	70	77	73	70	70	73	90

ATTACHMENT D: "BASICS FIRST"

74. **The foundation theory for change** and/or design principles are presented here that was used to help established a performance management culture within Government. The theory is based around five mutually reinforcing idealised approaches to delivering aid effectively and programming PFM reforms. These five components are:

- ***Conform to aid effectiveness principles*** of ownership, alignment, harmonisation, managing for results, mutual accountability and the G7+ TRUST and FOCUS priorities;
- ***Follow the Basics First and Platform Approach*** to help prioritize and sequencing PFM reform activities over time;
- ***Target the weakest links in the continuous improvement*** cycle to ensure the system is self-improving;
- ***Utilise analytical techniques to continually assess technical and political feasibility*** *of reforms and reform options; and*
- ***Introduce a Team-based Performance Management culture*** starting with integrating team-based performance management into reform program design and monitoring and evaluation systems.

Foundation Theory for Change: Delivering Successful Reform

75. **Theories of change define long-term goals and then map backwards** identifying preconditions. A Theory of Change explains the process of change by outlining causal linkages in an initiative, i.e., its shorter-term, intermediate, and longer-term outcomes. The identified changes are mapped – as an "*outcomes pathway*" – showing each outcome in logical relationship to all the others, as well as chronological flow. The links between outcomes are explained by "rationales" or statements of why one outcome is thought to be a prerequisite for another.[10] [11]

76. **The theory for change presented here reflects the elements that were followed during design** of the Program Budget Support Arrangement for MoF, which was aimed at helping achieve a vision and implement a five-year action plan for reform. The Theory for Change presented here is very much about answering the question– "*What would it take for PFM reform to be successful and sustainable*". In a nutshell, the answer to this question is by: i) Ensuring Real *Ownership*; ii) Supporting Good *Design;* and iii) Focusing on *Team-based Performance Management* to secure successful implementation. However, it is a little bit more complicated than that.

[10] Wikipedia: Theory of Change (Accessed 5 June 2014)
[11] Centre for Theory of Change: What is Theory of Change (Accessed 5 June 2014)

77. **A five-point plan reflects the foundation theory for change** to achieving sustainable and successful PFM reform. It draws on over two decades of experience in delivering aid and reforming PFM systems around the world. This five point plan is as follows:

- **Conform to Aid Effectiveness principles** (ownership, alignment, harmonisation, managing for results, mutual accountability) with a focus on slow areas as identified in Accra Agenda for Action (AAA) including ownership, effective partnerships and openly accounting for results) and the g7+ TRUST and FOCUS priorities.
    - By following these principles, aid provided for PFM reform is more likely to be cost-effective in creating positive change.
- **Follow the principles of Allen Shick's Basics First and Peter Brooke's Platform Approach** to help prioritise and sequencing PFM reform activities over time**.** This involves establishing a set of sequenced competency platforms and associated targets (e.g. deliver predictable resourcing and establish high quality basic systems first before holding implementers to account and undertaking more difficult reforms).
    - By following these principles a foundation design for successful reform will be established by ensuring a coherent approach to reform programming is established;
- **Target the weakest links in the continuous improvement cycle** to ensure that the PFM system is built in a way that allows it to continuously improve itself.
    - By doing this it will help ensure that the continuous improvement – or budget - cycle is working as intended to create ongoing positive change (e.g. by ensuring comparability of budgets and accounts, delivering functional internal and external audit and follow-ups, producing and publishing good enough in-year and end of year reports, and publishing portfolio budget statements and annual reports);
- **Utilise analytical techniques to assess technical and political feasibility of reform options** to ensure change efforts are focused in the right areas. This involves adopting Jack Diamond's work, which inter alia means assessing each reform activity option for things like impact, risk of failure, ability to implement, authority to act, and acceptance of need.

- By using such techniques, reforms that are more likely to succeed and have a high impact will be prioritised for funding and provides analytical foundations for high quality performance and activity risk management.

- **Establish a team-based performance management culture** starting with integrating it in reform designs and monitoring and evaluation systems. Here it is important to recognise that it is teams (organisational units) that implement change not themes (strategic/thematic groups or reform committees) and that league tables of performance, risk and impact are produced by independent experts.

    - By introducing team-based performance management the PFM reform ship can be steered well and a healthy professional competitive spirit can be established - where high performing teams are rewarded and under-performing teams better supported.

78. Each point of the five-point plan is elaborated in the following sections.

1. Conform to Aid Effectiveness Principles

79. **The Aid Effectiveness Declaration is focused on five mutually reinforcing principles.** These principles are important for designing and reforming PFM reform. The following five principles have been adapted to clearly link to PFM reform in Afghanistan.

- **Ownership**: The PFM leadership group lead their own reform policies and strategies, and manage their own development work on the ground. Donors must support Afghanistan build its capacity to exercise this kind of leadership by strengthening local expertise, institutions and management systems. A key target was for the MoF's PFM medium term strategy to be clearly linked to a well sequenced 5 year action plan that is increasingly owned by the whole senior Afghan management team and reflected in annual action plans (or business plans) of team leaders.

- **Alignment**: PFM Donors to work towards lining up their aid firmly behind the priorities outlined in MoFs vision, medium term strategy and 5 year and annual action plans. Wherever possible, they use local institutions and procedures for managing aid in order to build sustainable structures – or in other words: use country systems in order to improve country systems. PFM donors are to be committed to make more use of Afghan procedures for PFM, accounting, auditing, procurement and monitoring. PFM donors

promise to work to improve the predictability of aid within a fiscal year, to ensure aid is properly forecast, included on budget, and delivered as promised. PFM donors ensure that their aid is "untied" from any obligation that it be spent on donor-country goods and services.

- **Harmonisation**: PFM Donors work to coordinate development activities better amongst themselves to avoid duplication and high transaction costs and ensure donor division is not exploited. They coordinate better at the country level to ease the strain on the Government, for example by reducing the large numbers of duplicate field missions. They resolve differences amicably and find solutions to difficult working environments. They agree to work towards supporting a "programme-based approach" to supporting PFM reform. This means that once the pre-conditions are in place (e.g. a coherent reform program and performance management framework adopted) aid will delivered increasingly through direct program based budget support mechanisms led - rather than fragmented into multiple individual projects.
- **Managing for results**: All parties in the aid for PFM reform relationship in Afghanistan place more focus on the results of aid. They develop better tools and systems to target and measure impact. The target is for Afghanistan to have a solid performance assessment frameworks working well that measure the impact of aid and it is integrated into a team-based performance management framework.
- **Mutual accountability:** PFM donors and lead government agencies for PFM account more transparently to each other for their use of aid funds, and to Afghan citizens and parliament for the impact of aid. The target is to have the procedures in place set within the performance management framework that will openly report on both costs and results.

2. Follow the principles of Basics First and the Platform Approach

80. **To help prioritise and sequencing PFM reform activities over time the basics first and platform approach were followed** as on-going reform design and prioritisation principles. This involved recognising the priority competency platforms and associated targets (e.g. deliver predictable resourcing and establish high quality basic systems first before holding implementers to account and undertaking more difficult reforms).

Box 3. Basics First

In explaining his "Getting the Basics Right" Schick provides a number of examples of what that means:

• **First foster an environment that supports and demands performance** before introducing performance or outcome budgeting.

• **Budget for work to be done first** before budgeting for results to be achieved.

• **Control inputs well first** before seeking to control outputs.

• **Account for cash properly first** before accounting for accruals.

• **Establish good external controls first** before introducing more internal controls.

• **Establish good internal control first** before introducing budget and managerial accountability (excluding accountability for delivering reform).

• **Operate a reliable accounting system first** before installing an integrated financial management system.

• **Enforce formal contracts in the market sector first** before introducing performance contracts in the public sector.

• **Have effective financial auditing first** before moving to performance auditing.

• **Adopt and implement predictable budgets first** before insisting that managers efficiently use the resources entrusted to them.

Adapted from Holmes[12], Schick[13], and Bietenhader and Bergmann[14]

81. **The "Basics First" approach to reform programing is almost 20 years old but is still as relevant as ever.** In 1997 Allen Schick **Error! Bookmark not defined.** warned PFM reformists around the world not to engage in fancy or complex reforms but rather stick to establishing high competency standards for the essential basics of good public financial management. Some examples of these are presented in Box 3 above, which are drawn from the Public Expenditure Handbook written mostly by Malcolm Holmes and published by the World Bank in 1998. More examples are at Box 4 that outlines eight core PFM competencies. It is worth noting that even then, Schick, Holmes and the World Bank highlighted how important it was to *"foster an environment that supports and demands performance".*

82. **Bulgaria and Guatemala have successfully applied the "basics first" approach** while it has also been reported that low capacity environments have also benefited, including Sierra Leone. Key areas in these countries where basics have been demonstrably attained through targeted reform programing include transparency, procurement and accountability in budget execution. Critics of the basics first approach argue that there is no evidence that attaining basic competency standards facilitates a move to more complex or strategic reforms **Error! Bookmark not defined.**.

[12] Holmes et al, 1998, "Public Expenditure Management Handbook", World Bank, Washington DC, USA (accessed 1 June 2005)
[13] Schick, 1998, "Why Most Developing Countries Should Not Try New Zealand's Reforms", in the World Bank's Research Observer, Volume 13, No. 1 (Accessed 5 August 2005)
[14] Bietenhader and Bergmann, 2010, "Principles for Sequencing Public Financial Reforms In Developing Countries" in International Public Management Review · Volume 11 · Issue 1 · 2010 .

83. **The reason for a lack of proof for basics first is probably that PFM reform is both a political and technical process**. This means that while there may be technical reasons for sequencing reforms, there are also political reasons to start, stop and/or avoid reforms. Hence, it is important to undertake both technical and political feasibility analysis as part of the design process for any future PFM reform program.

Box 4. The Eight Core PFM Competencies

1. **Realistic budgeting**: Outturn is close to the original budget

2. **In-year control of spending**: Outturn avoids overruns & arrears

3. **In-year control of revenues**: Budget revenue outturn avoids shortfalls and revenue arrears

4. **Timely accounting and reporting**: Budget execution performance is known and reviewed during the year

5. **Control over cash**: minimises use of cash (i.e. extensive use of electronic payments then checks) and risk of financial irregularity

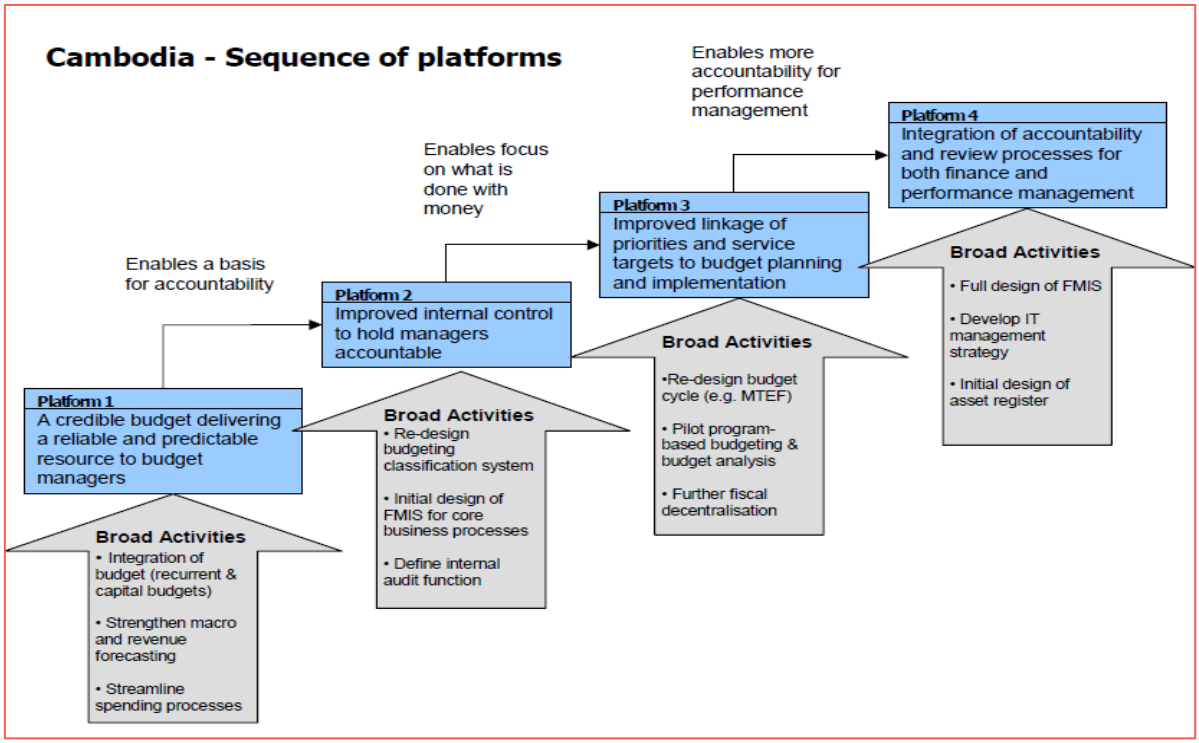
6. **Adequate internal control procedures**: Budget execution avoids rent seeking behaviour and financial irregularities

7. **Adequate external control procedures**: Transparency and financial discipline enforced

8. **An adequate and enforced legal and regulatory framework**: The formal PFM system is the system.

Drawn from Diamond 2013 6.

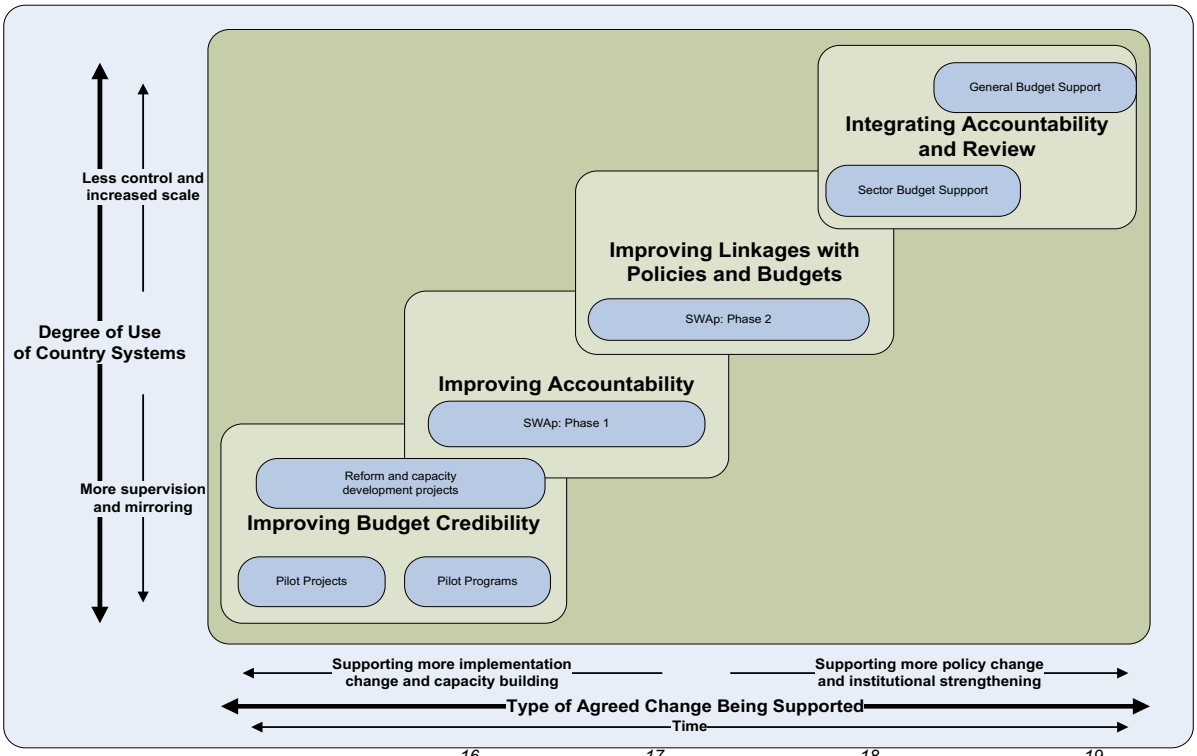
Figure 9. Platform Approach Introduced in Cambodia in 2005



Source: Peter Brooke via DFID, 2005[15]

[15] DFID, 2005, A Platform Approach to Improving Public Financial Management", DFID, London, UK

Figure 10. Platforms, Gateways & Trajectories of Change



Adapted from Koberle et al, 2005, p 11[16] Brooke, 2003[17] and DFID, 2005[18] p 5 in Laing 2009[19]

84. **It should also be recognised that some of the greatest advances in PFM reforms came by taking advantage of windows of opportunities** opened by politicians and the political landscape – in particular by having reforms largely on the shelf and ready to go. For example, the first modern MTEF emerged in the 1980s when the Australian Government sought to "win political support for a resetting of national strategic priorities It decided to publish [internal] estimates of future spending under existing policies". Once published, the Government was required to publish them on an ongoing basis in order to demonstrate that it was keeping its promises". The first modern MTEF was then borne, which happened through a window of opportunity, rather than a well-designed medium term reform program.

85. **The first use of the Platform Approach was in 2005 in Cambodia** (see Figure 9). One if it's key achievements was to help provide a vision for how to progress reform over time. Another benefit of adopting the platform approach was that it allowed for a coherent approach to expanding use of country systems over time (see Figure 10). Two of its weaknesses were revealed to be linked to how performance was reported, analysed and

[16] Koeberle, Stavreski, and Walliser (ed), 2005, "Budget Support as More Effective Aid?" World Bank, Washington DC (p 28-29)

[17] Brooke, 2003, "Study of Measures Used to Address Weaknesses in Public Financial Management Systems In the Context of Policy Based Support", Bannock Consulting, London, UK

[18] DFID, 2005, A Platform Approach to Improving Public Financial Management", DFID, London, UK

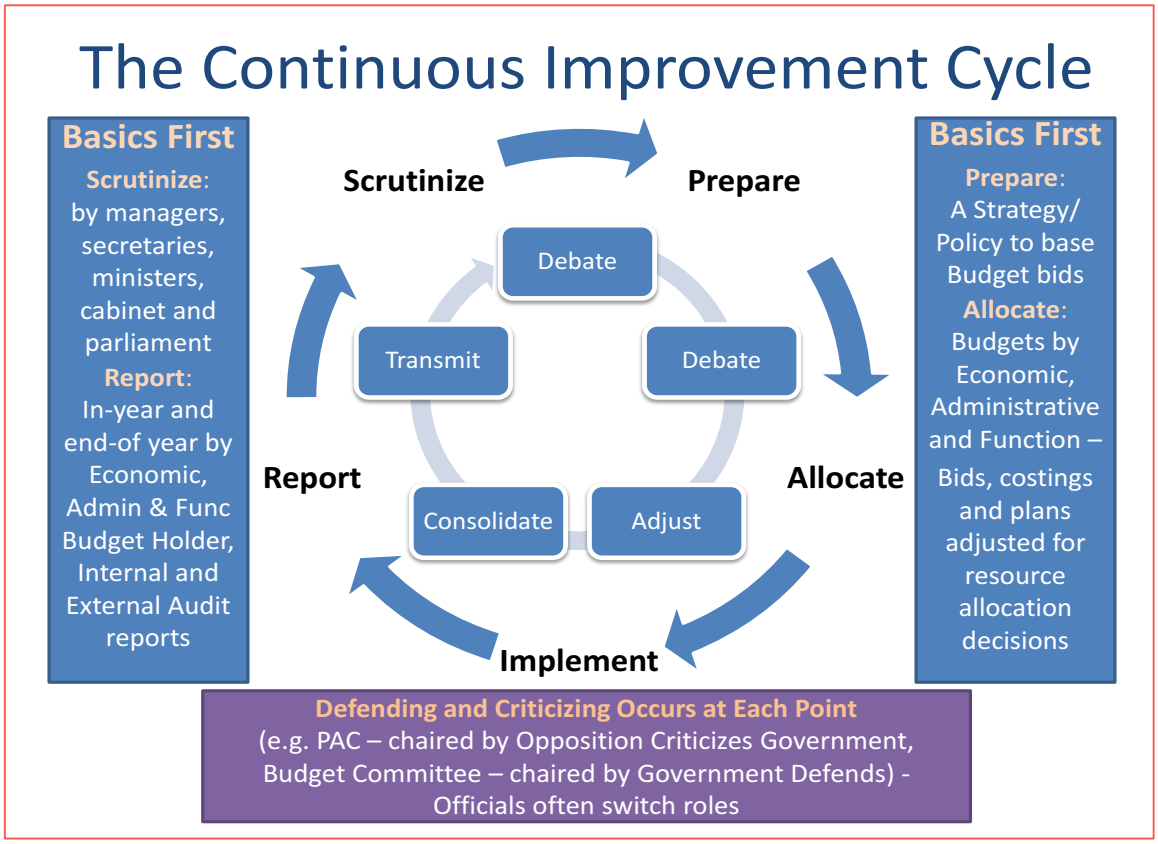
[19] Laing et al, 2009, "*Technical Working Paper: Towards a Sub-National Strategy Financing Options Paper and Guidance Note - Fiduciary and Development Effectiveness Risk Assessment of PNG's PFM Systems*", AusAID, Canberra, Australia

managed and the lack of attention to team based performance management (as opposed to then theme-based approach to reporting progress). The mammoth task of reporting on performance of theme-based activities made the reform unit the one accountable for performance, even though it was in fact the core organisational units, like accounting and budget departments, which were responsible for actual implementation.

3. Target the weakest links in the continuous improvement cycle

86. **The budget cycle is the continuous improvement cycle and should be protected**. It needs to be the focus of attention for PFM reform programmers. Moreover, it should not be fragmented by donor behaviour (e.g. PRSPs). One of the forgotten areas in PFM reform programming specifically and development generally is lack of attention to ensuring the budget cycle is the dominant continuous improvement cycle operating in a country. Once the core elements of the continuous improvement cycle are all working sufficiently well, the system becomes self-improving as all the mechanisms of accountability and transparency start to function in a way that continually improves systems and teams – both within the year and over different years. (See Figure 11.)

Figure 11. The Continuous Improvement Cycle is the Budget Cycle



Source: Laing 2011[20]

[20] Laing, 2011, "*Technical Working Paper - Timor-Leste: Ministry of Education Economic Efficiency Assessment*", World Bank, Dili, Timor-Leste.

87. **For the continuous improvement cycle to work, five systems need to work** sufficiently well: i) *Preparing* for the budget through strategy and policy development; ii) *Allocating* budgets in multiple dimensions in order to be clear on the intentions of public spending; iii) *Reporting* in-year and end-of-year results and ensuring a comparability of budgets and accounts to allow non-economists and non-public financial specialists to hold government to account for their promises; and iv) *scrutinising* performance by managers, secretaries, ministers, cabinet and parliament.

88. **Any weaknesses in that budget cycle will make it very difficult for the continuous improvement cycle to work as intended** – i.e. for the system to be self-improving. A key feature that allows the cycle to work are the abilities of all the key players to criticise and defend positions - which is a core skill of any successful public servant.

89. What this means for PFM reform programming in Afghanistan is that attention needs to be given to certain key forgotten areas such as: i) ensuring comparability of budgets and accounts – including multiple dimensional reporting; ii) delivering functional internal and external auditing and close scrutiny of follow-up; iii) producing and publishing good enough in-year and end of year reports; iv) publishing portfolio budget statements and annual reports by key service delivery agencies; and v) supporting effective debate in parliamentary committee structures.

4. Utilize techniques to assess technical and political feasibility of reform options

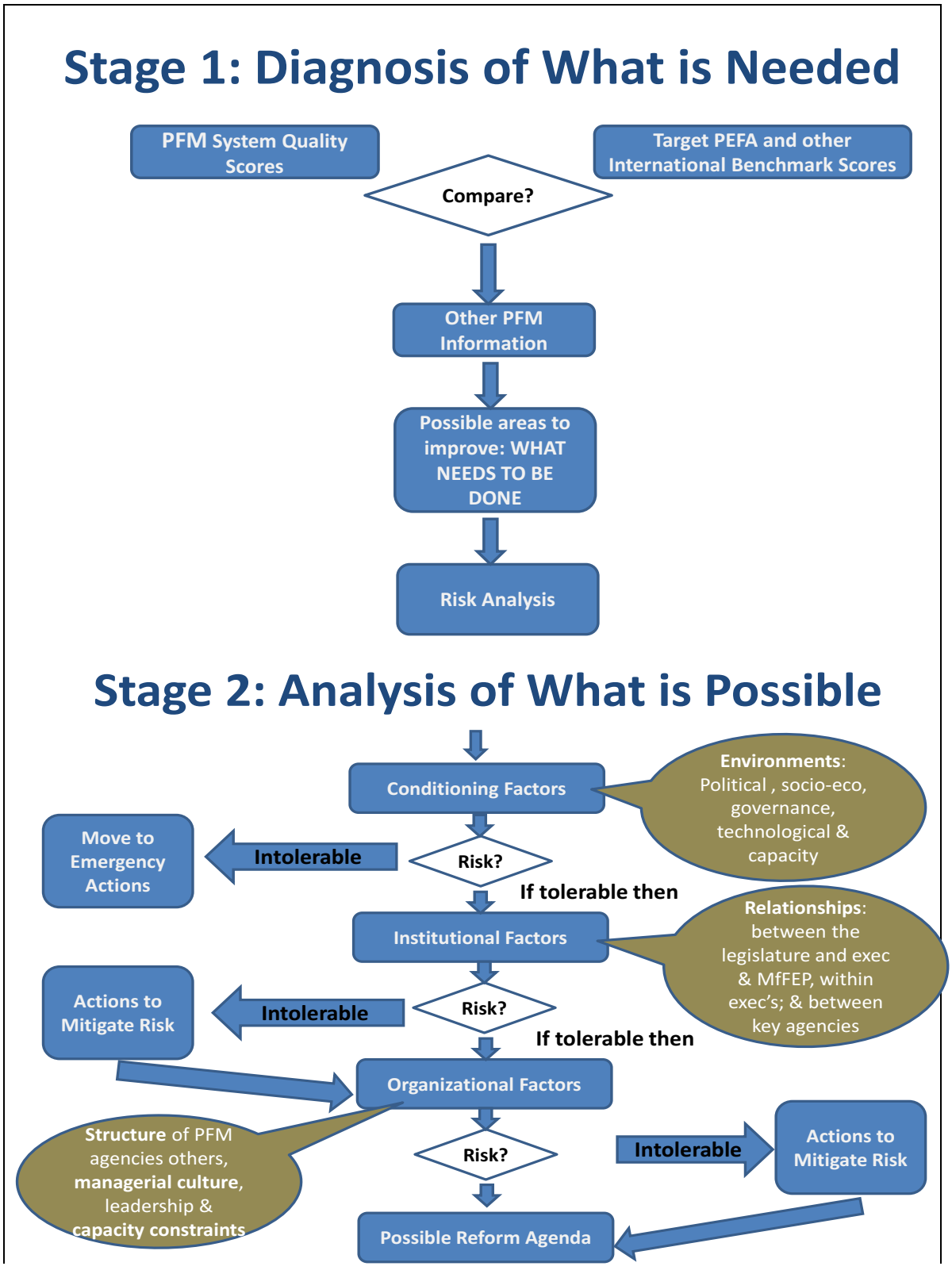
> **"To be successful in PFM reform there is little choice but to define a vision and attempt to conceptually define a desirable sequence of reforms"**
> *(Jack Diamond, PEFA GPN, 2013 6).*

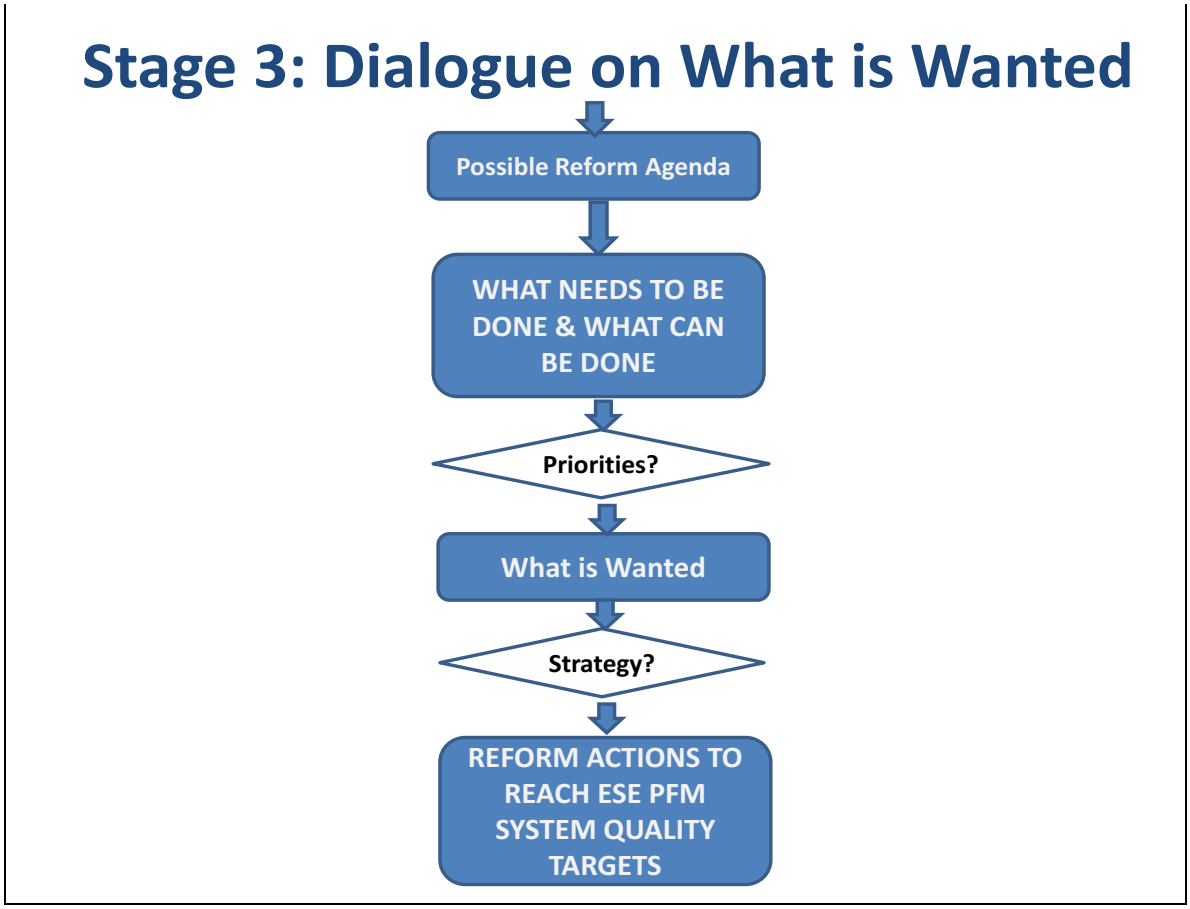
90. One of the most important advances in reform programming in recent times is the establishment of a Three Stage approach for sequencing PFM Reforms outlined by Diamond[6]. The three stage approach basically identifies:

- What is needed;
- What is possible; and
- What is wanted.

91. **"What is needed" is now generally considered the easy part** given progress in key diagnostics including PEFA, open budget and other international performance measures of PFM system performance. Advances in PFM system diagnostics is well developed, though there remains still more work to be done.

Figure 12. The Three Stages for Sequencing PFM Reforms





Source: Adapted from Diamond 2013 [6]

92. **Going from understanding the problem to finding the solution is difficult.** What has been lacking is a generally accepted way to take the copious amounts of diagnostic information of PFM system quality into a set of reform priorities that is implementable by government authorities. Diamond provides a way forward through the 3 stage approach. Figure 12 illustrates.

93. **Another core advance embraced by Diamond** is the system used to assess viability of different reform options. The following are five features of Diamond's approach to assessing viability of reforms:

- **Assess likely impact** of proposed reform measures;
- **Assess risk of failure** for each reform option – in terms of
    - number of organisations;
    - time required;
    - complexity and scope;
    - behaviour change required; and
    - visibility;

- **Review institutional factors** that determine how well reforms will be received and implemented;
- **Review organisational resource factors** that impose constraints;
- **Recognise trade-offs**.

Figure 13. Example: Ghana GIFMIS Performance Review – by themes

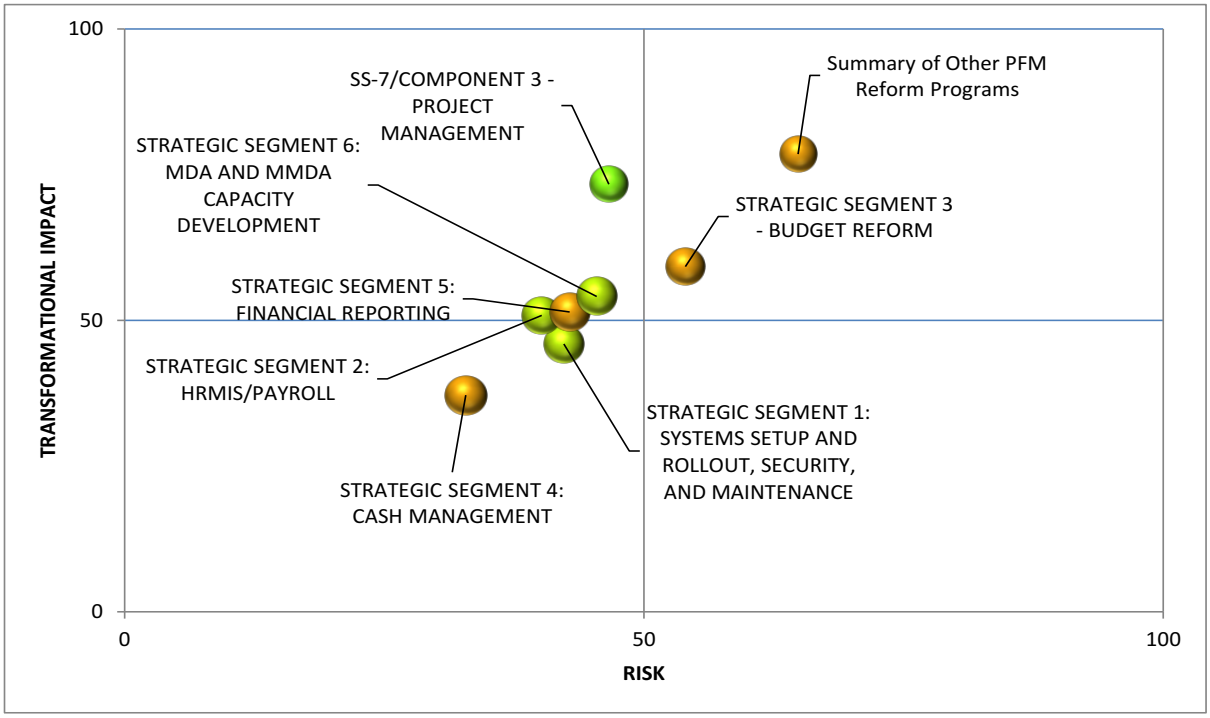
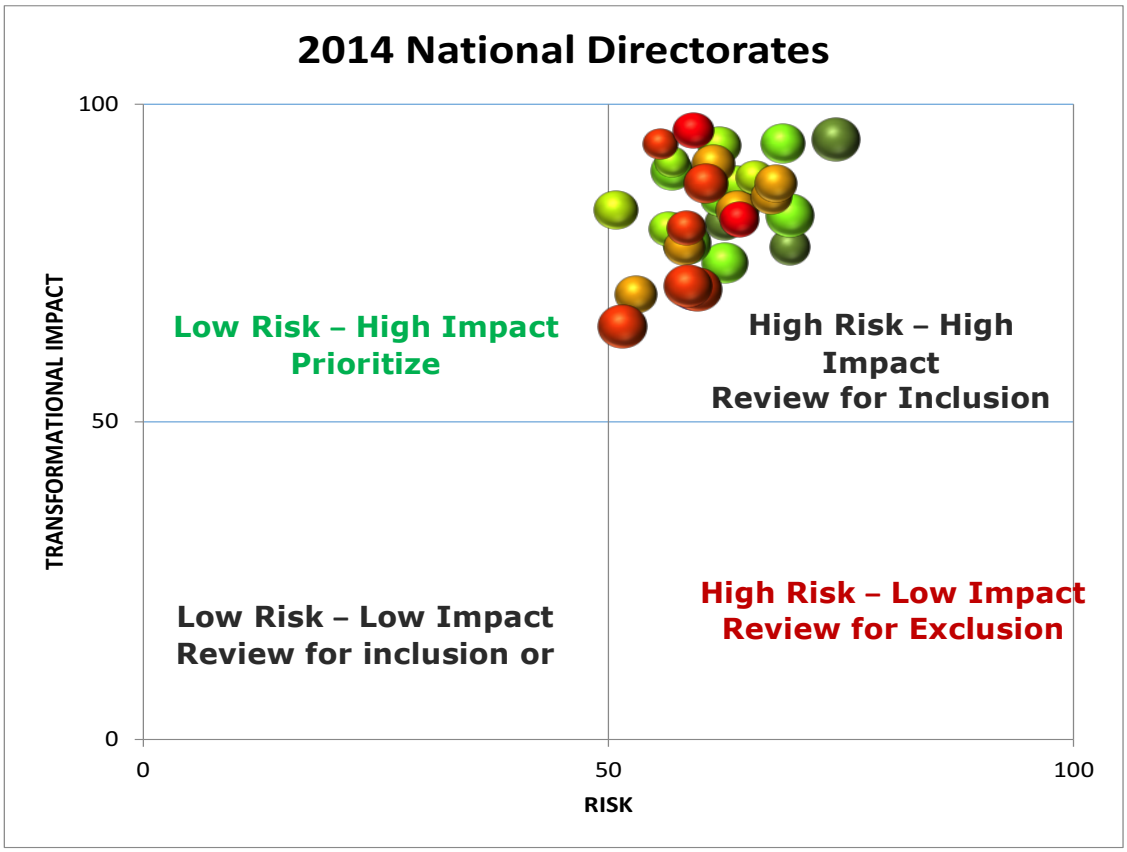


Figure 14. Example: Timor-Leste 2014 Team Performance Review



94. **The first two components are particularly important for reform programming and team-based performance management**. Firstly, they allow an objective way to assess risk of failure of a reform option. Secondly, it allows high risk and high impact activities to be reviewed in a way that the risk of failure is reduced (e.g. by splitting the activity into phases). Thirdly, it facilitates team based performance management by recognising that some teams are focused on more difficult and important work compared to other teams. Such an approach was used to help assess progress of PFM reforms in Ghana – though this was done on strategic segment and output basis rather than organisational unit basis (see examples in Figure 13 and Figure 14). It also provides a solid foundation to produce defendable league tables of reform performance during implementation.

95. **Introducing a team-based performance management culture is the most important point** of the five-point plan. It is the most important because a functional performance management system will be self-correcting and self-improving. However, getting a performance culture established has proved elusive in the field of PFM reform programming with many costly failures around the world. That said, team based performance management is not new, and is well accepted as effective in helping to deliver quality results – in sporting, business or public service environments. What is also not news is that effective leaders manage teams well, and they do that by holding team players to account for their performance based on a solid evidence base of

data and statistics – again in sporting, business or public service environments. Nor is it news that Schick, Holmes and the World Bank highlighted way back in the 1990's how important it was to "foster an environment that supports and demands performance" – see Box 3 above.

96. **What is news is that we now have a way to manage team performance in pursuit of successful PFM reform**, driven in part by the Work of Jack Diamond and this implementation mechanism introduced in Timor-Leste (so far). Core features of the approach are that good performance is rewarded, poor performance is addressed and a credible and independent mechanism for assessing performance is utilised. Moreover, a key feature of the analytical approach to assessing performance is the use of Diamond's approach to testing feasibility by quantifying impact and risk. Rather than a one off exercise to help prioritise and sequence reforms, it is integrated to the performance management system.

97. **Integration involves ensuring reform activities are the right ones** – i.e. preferably low risk-high impact activities (see Figure 13) – and that grading team performance can take into consideration the difficulty and importance of the reform work being undertaken. Such an approach allows the ability to **produce *risk and impact adjusted league tables*, which are critically important to driving** a performance culture within an organisation.

98. Another core component of the performance management system being pursued is the way performance is actually assessed and quantified. The performance scoring approach is one that scores each activity against three dimensions:

- ***timeliness*** – was the activity done on time;
- ***quality*** – was the activity done to a high or low quality; and
- ***effectiveness*** – in dealing with problems. The first two are self-explanatory.

99. **The third dimension of effectiveness is probably the most important** as it has been revealed that focusing on how teams managed problems while pursuing the reform helps transform the teams defence of what has been achieved. In particular, it changes a focus from teams trying to spin that something has been achieved when it actually has not, to trying to explain how they dealt with the problems – not just that they had problems as an excuse for poor performance. In other words, the system provides incentives to tell the truth about how reform is going.

100. **For the system to work three essential pre-conditions need to be place**:

- ***At least a set of annual action and time bounded reform activities grouped by teams /organisational units*** – ideally backed directly by a 5 year sequenced action plan to achieve a long-term vision.

- ***A set of medium term targets*** drawing from a range of international performance measures for PFM system quality (e.g. PEFA, open budget, revenue watch, etc.) as well as some key country specific intermediate performance measures (like FMIS roll-out numbers); and
- ***Credible and independent systems to assess and grade performance***, which recognises outstanding contributions and flags under-performing teams and is capable of providing recommendations to steering the PFM reform ship.

101. **When such a system is operational, it provides the foundation to introduce even more advanced performance-based incentives** such as reward and recognition schemes and team-based performance pay if the conditions are right.