Document of
The World Bank

Report No: 78801

PROJECT PERFORMANCE ASSESSMENT REPORT

ISLAMIC REPUBLIC OF AFGHANISTAN

PROGRAMMATIC SUPPORT FOR INSTITUTION BUILDING I
(IDA-39630)

PROGRAMMATIC SUPPORT FOR INSTITUTION BUILDING II
(IDA-H1940)

PROGRAMMATIC SUPPORT FOR INSTITUTION BUILDING III
(IDA-H2950)

STRENGTHENING INSTITUTIONS DEVELOPMENT POLICY GRANT
(IDA-H5010)

June 25, 2013

IEGCC Country, Corporate, and Global Evaluations
Independent Evaluation Group

Abbreviations and Acronyms

ARTF	Afghanistan Reconstruction Trust Fund
DPG	Development Policy Grant
GDP	Gross Domestic Product
ICR	Implementation Completion and Results Report
IDA	International Development Association
IEG	Independent Evaluation Group
IMF	International Monetary Fund
ISR	Implementation Status and Results Report
M&E	Monitoring and Evaluation
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRR	Priority Reform and Restructuring
PSIB	Programmatic Support for Institution Building

Currency Equivalents (annual averages)

Currency Unit = Afghani AFN

2001	US$1.00	AFN 4,750.00
2002	US$1.00	AFN 4,726.25
2003	US$1.00	AFN 42.7850
2004	US$1.00	AFN 42.7850
2005	US$1.00	AFN 42.1130
2006	US$1.00	AFN 49.8000
2007	US$1.00	AFN 49.5700
2008	US$1.00	AFN 51.9300
2009	US$1.00	AFN 49.0400

Fiscal Year

Government: 21 March – 20 March (Solar Year – Dates are approximate)

Director-General, Independent Evaluation Group	:	Caroline Heider
Director, IEG Country, Corporate and Global Evaluations	:	Nick York
Task Manager	:	Anis Dani

Contents

This report was prepared by Clay Wescott, who assessed the projects in February – March, 2012. Lorenzo Delesques prepared a background paper that contributed to the PPAR. The report was peer reviewed by Ali Khadr and panel reviewed by Michael Lav. Carla F. Chacaltana provided administrative support.

Tables

Figures

Boxes

Principal Ratings

Programmatic Support for Institution Building I, II and III

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Satisfactory	Satisfactory
Risk to Development Outcome	Substantial	Significant	High
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Moderately Satisfactory

* The Implementation Completion and Results Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEG product that seeks to independently verify the findings of the ICR.

Strengthening Institutions Development Policy Grant

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Significant	High	High
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Moderately Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEG product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Programmatic Support for Institution Building I

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Philippe Auffret Stephane Guimbert	Kapil Kapoor	Alastair J. McKechnie
Completion	Philippe Auffret	Kapil Kapoor	Alastair J. McKechnie

Programmatic Support for Institution Building II

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Philippe Auffret Stephane Guimbert	Sadiq Ahmed	Alastair J. McKechnie
Completion	Stephane Guimbert	Kapil Kapoor	Alastair J. McKechnie

Programmatic Support for Institution Building III

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Stephane Guimbert Birgit Hansl	Ijaz Nabi	Alastair J. McKechnie
Completion	Stephane Guimbert	Ijaz Nabi	Alastair J. McKechnie

Strengthening Institutions Development Policy Grant

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	Birgit Hansl, Paul Sisk	Joel Hellman	Nicholas Krafft
Completion	Birgit Hansl	Deepak Bhattasali	Nicholas Krafft

IEG Mission: Improving World Bank Group development results through excellence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examines project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://worldbank.org/ieg).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to development policy operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency (ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report of the Independent Evaluation Group (IEG) covers four Development Policy Operations implemented over the period fiscal year (FY) 2005 – 11 in Afghanistan. Included were three that were part of a series: Programmatic Support for Institution Building (PSIB) I, II and III, and a fourth: Strengthening Institutions Development Policy Grant.

The IDA credit for PSIB1 for US$80 million was approved in March, 2004, disbursed upon effectiveness in August 2004, and closed on schedule on March 20, 2005. PSIB2 was approved on December 13, 2005 for US$80 million (grant), disbursed upon effectiveness December 27, 2005, and closed on schedule on September 30, 2006. PSIB 3 was approved on May 29, 2007 for US$80 million (grant), disbursed upon effectiveness July 11, 2007, and closed on schedule on March 21, 2008. The IDA grant for US$35 million was approved June 4, 2009, disbursed upon effectiveness August 24, 2009, and closed as planned August 31, 2010. There were no cancellations.

The report presents findings drawing on a review of the Program Documents, the Implementation Completion and Results Reports, IEG's Afghanistan Country Program Evaluation 2002-2011 (World Bank 2012), aides-memoire, supervision reports, and other relevant material. IEG consultant Clay Wescott carried out a field mission to Kabul from February 25-March 2, 2012 to interview government officials, the staff of non-governmental organizations, project staff, donor representatives, and other stakeholders. Bank staff members, donor representatives, and other informants were interviewed at headquarters and by videoconference. Annex A provides basic data on the four operations. IEG consultant Lorenzo Delesques carried out additional data collection and interviews on salary enhancement and technical assistance.

The assessment aims, first, to serve an accountability purpose by verifying whether the operations achieved their intended outcomes. Second, the report draws lessons that are intended to inform future operations of this nature in Afghanistan and other fragile and conflict affected states. Third, the assessment will contribute to a forthcoming IEG study on fragile and conflict affected states.

Following standard IEG procedures, the report was shared with the Government of Afghanistan for comments. However, no comments were received.

Summary

When the Afghanistan Interim Administration took power in 2001, ministries lacked basic materials and equipment. There were chronic skill deficits in areas such as procurement, expenditure programming, budget preparation, accounting, financial control and audit, human resources, and project and program management. Most women had been dismissed, and many senior personnel had either emigrated or taken on alternative, part-time employment.

To address these challenges, the Bank supported Government efforts in a number of areas. The first was to put in place the basics of a functioning public financial management and procurement system that could mobilize resources for reconstruction in an effective and transparent manner. The second was to build capacity to recruit and retain essential skills needed to manage an effective and accountable public service, including a justice system, and mechanisms to combat corruption. Other areas included support to build basic systems for health and social protection, to expand and improve the quality of public education, to support growth of a formal, modern and competitive private sector, to adopt a development strategy, and to promote security and rule of law.

This report assesses four development policy operations. Three of them were approved as part of a series of Programmatic Support for Institution Building (PSIB I: 2004-5; PSIB II: 2005-6; PSIB III: 2007-8). The series had the overall objective: "to deepen, broaden, and sustain the reforms underway in the areas of public administration and fiscal management," while maintaining the macroeconomic framework. The objectives of the fourth operation, the Strengthening Institutions Development Policy Grant (DPG: 2009-10), were to: (i) improve fiscal policy and planning and public financial management, (ii) strengthen public administration reform and sub-national administration, and (iii) increase transparency and accountability in the management of public finances.

The objectives of the PSIB series and the Strengthening Institutions Development Policy Grant were substantially relevant to the 2008-2013 Afghanistan National Development Strategy, and to the Bank's Interim Strategy Note (FY12-14). The design of the PSIB series was substantially relevant, with actions supported linked through a causal chain to the objectives of fiscal management and administrative reform. The efficacy of the series was substantial in contributing to outcomes of deepening, broadening and sustaining fiscal management and public administration reforms. The overall outcome of the series was Satisfactory.

The design of the Strengthening Institutions Development Policy Grant was also substantially relevant, with a results framework clearly linking actions supported to the objectives. The grant made substantial progress in strengthening fiscal management and, in turn, maintaining an appropriate macroeconomic framework. However, the sub-objectives of administrative reform and increased accountability were only modestly achieved. The overall outcome was Moderately Satisfactory. For both the series and the grant, the risk to development outcome was High, Bank performance was Satisfactory, Borrower performance Moderately Satisfactory, and the quality of Monitoring and Evaluation modest.

Both the programmatic series and the grant leveraged much more funding for parallel activities from other partners, including the IMF (Staff-Monitored Program, Poverty Reduction and Growth Facility and analytical work), United Kingdom Department for International Development (capacity building in the Budget Department and the Fiscal Policy Unit), United States (support for private sector legal framework, capacity building in audit and revenue departments, and strengthening supervision capacity at the Central Bank, education), the Asian Development Bank (support to provincial office of Ministry of Finance, and to natural resources management and transport), Germany (trade and investment), Italy (Justice), Japan (transport), Denmark (human rights), and the United Nations system (education, urban management, gender, environment).

The four operations, in combination with extensive analytical and advisory activities and technical assistance from the Bank and other partners, helped maintain a robust macroeconomic framework, with an average real GDP growth of 10 percent per annum over the period 2005-2010. The operations strengthened public financial management in core government institutions. The Open Budget Index score for Afghanistan increased from 8 percent to 21 percent between 2008 and 2010, and continued improving to 59 percent in 2012. Afghanistan now has a relatively strong public financial management framework, impressive revenue growth, and greater assurance that funds provided through the budget are used effectively. Accounting and financial management reporting have become more accurate and timely. Sub-national units are extensions of the line ministries, and of the Ministry of Finance in the case of Moustoufiats, which have online, real time use of the Afghanistan Financial Management Information System (AFMIS). The use of the Afghanistan Reconstruction Trust Fund, working in parallel to the four operations to pay salaries, has ensured timely and reliable payment to staff, while facilitating quick disbursement of donor funds and accountability in the use of these funds.

Despite progress, significant challenges remain: budget formulation and execution is hampered by unpredictability of donor financing and weak project preparation by line ministries; off-budget expenditures remain significant, although all Bank-administered operations are on-budget; improvements in fiscal management and spending efficiency at many line ministries and sub-national entities are slower than desired. While a Public Procurement Law and amendments have been adopted with Bank support, and a Procurement Policy Unit created and functioning, many complementary actions needed for effective implementation are still lacking. Capacity in most line ministries is weak, creating substantial procurement bottlenecks, including in International Development Association and Afghanistan Reconstruction Trust Fund-financed programs.

In public administration, the operations in combination with other interventions have led to important reforms, but moderate shortcomings persist. Bank support has led to adoption of a civil service law and regulations for administrative reform oversight, reduction of ministries from 34 to 26, more transparent recruitment, and pay and grading reforms. Nevertheless, public administration remains vulnerable, as the new laws, procedures and regulations are only slowly translating into improved civil service performance. Whatever inroads have been made with the support of the Bank to reduce leakage and increase donor trust, the government's ability to control corruption and enforce anti-corruption measures remains weak. The achievements have

relied mainly on a "second civil service" of contracted staff who are paid relatively high salaries, without an agreed plan to hand over key functions to mainstream civil servants.

The Programmatic Support for Institution Building series also addressed other issues in the Afghanistan National Development Strategy of the Government, and the Bank's program was aligned with it; however, because of its comprehensive nature, prioritizing key areas of support has been a challenge. There has been considerable progress in extending health and education services to the population, and impressive gains in overall health outcomes, supported both by the series and by investment operations. Some progress was made in extending the business regulatory framework and expanding the security forces, but severe insecurity and weaknesses in the legal framework persist.

IEG draws the following lessons from the evaluation:

- **Development Policy Operations can achieve important public administration and financial management reforms in high-risk environments with strong government ownership and flexible implementation**. Bank investment lending, analytic and advisory services, and Bank-managed multi-donor trust funds, together with close coordination with the initiatives of other donors, can substantially increase the probability of success of development policy operations. Continuity, experience, and quality of Bank staff are necessary conditions for program effectiveness, with location in-country an added advantage.

- **Emergency consultant support in the short- and medium-term can usefully supplement the skill base in Governments where progress in institution and capacity building is bound to be a slow and time-consuming process**. These skilled personnel can help adopt structures, processes, systems, laws, and regulations to enable reforms in, *inter alia*, pay and grading, administrative reform oversight, human resources monitoring, tax administration, financial management, procurement, and audit. However, ensuring the transition to a more normal administrative structure is necessary for sustainability.

- **It is crucial to empower senior officials from Government to determine and direct administrative reform, public financial management, and other institutional processes that make sense locally and that can promote broad-based consensus inclusive of key political groups, while being sufficiently robust to deal with rapid social and economic change.** This PPAR has demonstrated that when such officials are supported by extensive analytical work and parallel technical assistance operations, development policy operations can emerge that succeed in facilitating progress in a volatile setting.

Caroline Heider
Director General, IEG

1. Background and Context

1.1 When the Afghanistan Interim Administration took power in 2001, ministries lacked basic materials and equipment. There were chronic skill deficits in areas such as procurement, expenditure programming, budget preparation, accounting, financial control and audit, human resources, and project and program management. Most women (43 percent of government employees before the Taliban) had been dismissed, and many senior personnel had either emigrated or taken on alternative, part-time employment. Most administrative and fiscal procedures were not written down, but were understood by officials. For example, the Afghan civil service, divided into Tashkeels (staffing structures) for each ministry, had common pay scales, terms, and conditions that signaled unity and fairness. However, public service provision was extremely limited. While the previous, Taliban government had maintained military control over most of the country, they made little effort to build a civilian administration that could provide public services. Structures for raising customs and other taxes were rudimentary. The primary education gross enrollment rate was estimated in 2001 at 39 percent for boys and 7 percent for girls. Infant mortality was one of the highest in the world, with only 9 percent of births being attended by trained personnel. High poverty rates resulted, *inter alia*, from poor education and health, remoteness, high rates of physical and mental disability, natural disasters, extreme seasonal variations in food production, and violent conflict.

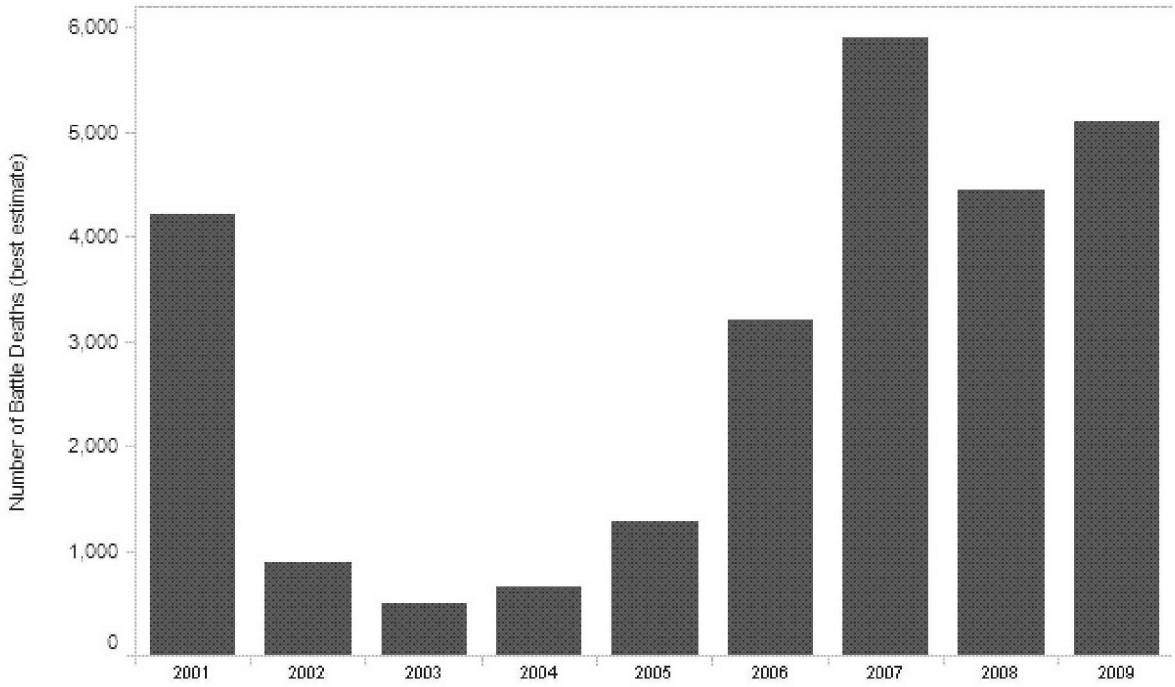
1.2 Starting from these initial conditions, the Bank's 2002 Transitional Support Strategy had the objective of: "Rebuilding or strengthening essential governance institutions and capacity, particularly in areas important for facilitating the overall reconstruction, economic recovery and aid process." The 2003 Transitional Support Strategy reframed this as: "…the continued development of a well functioning state that is accountable to its citizenry and able to ensure the delivery of services in an equitable, efficient and effective manner." The 2006 Interim Strategy Note continued with this objective, which is aligned with the government's 2004 Investment Plan. It specified that it would include developing both human and financial capacity, with the latter including reforms in customs and taxation, and contingent on the emergence of a vibrant and legitimate private sector. It signaled the importance of combating corruption, and of providing tangible benefits to citizens through essential services.

1.3 The 2009 World Bank Interim Strategy Note reframed the same objective as its first Pillar, which is aligned with the government's 2008-2013 Afghanistan National Development Strategy. The Interim Note added priorities for mainstreaming governance and anti-corruption, including engaging with the newly elected government on a governance and anti-corruption agenda, engaging on governance issues through the Afghanistan Reconstruction Trust Fund (ARTF) and the National Solidarity Program, and engaging with the Independent Directorate on Local Governance on a transparent fiscal framework, with enhanced monitoring by Community Development Councils.

1.4 One critical aspect of the context was the varying intensity of civil conflict over the period. Figure 1 shows that there was a sharp decline in battle deaths from 2001-4, and an increase starting in 2005. While the initial conditions allowed the authorities to focus on difficult institutional reforms, the turnaround in the security environment greatly added to the

challenges faced by the Bank and Government in designing and implementing successful operations.

Figure 1: Afghanistan battle-deaths, 2001-9



Source: Afghanistan Conflict Monitor.

1.5 On this foundation, the Bank supported Government efforts in a number of key areas. The first was to put in place the basics of a functioning public financial management and procurement system that could mobilize resources for reconstruction in an effective and transparent manner. The second was to build capacity to recruit and retain essential skills needed to manage an effective and accountable public service, including a justice system, and mechanisms to combat corruption. Other areas included support to build basic systems for health and social protection, to expand and improve the quality of public education, to support growth of a formal, modern and competitive private sector, to adopt a development strategy, and to promote security and rule of law.

1.6 Other donors recognized that capacity development in these areas would be an exceptionally challenging area to work in, and they wanted the Bank to take the lead. A number of donor projects have been aligned with the Bank's recommendations. While government and donors agreed at the 2007 Afghanistan Development Forum on 11 steps to address capacity development, there was little action because of reform management constraints, poor understanding of specific capacity problems, the one-size-fits all nature of the recommendations, and the fact that neither government nor donors have yet shown the will and discipline to proceed in implementing the steps.

1.7 The next two chapters will provide an in-depth assessment of the four operations, including the achievement of objectives and outcomes, the risk to development outcome, the performance of both the Bank and the Borrower, and the quality of monitoring and evaluation (M&E) frameworks. The final section will discuss some lessons learned.

2. Programmatic Support for Institution Building (PSIB, 2004-08)

Objectives, Design, and Relevance

OBJECTIVES

2.1 According to the Program Document for the first of the three operations, "The overall objective of these Credits is to deepen, broaden and sustain the reforms underway in the areas of public administration and fiscal management." (World Bank, 2004c: 1).

POLICY AREAS

2.2 Key policy areas supported by the series are taken from the Government's medium term development strategy[1]. The main difference in policy areas across the three operations is that fiscal management and public administration are combined for the first operation and separated for the second and third[2]. The main elements were as follows:

a) **Maintaining macroeconomic stability** through a sound macroeconomic framework, a multi-year, comprehensive, transparent and result-based budget system, coordination of external assistance with the Government's strategy and budget, increased domestic revenues and certainty of the revenue system, and availability of data to feed into policy making, modernizing investment and financial sector regulations and processes, and restructuring state owned enterprises;

---

[1] "The Government has requested International Development Association (IDA) to support an important subset of the reforms outlined in its strategy (which excludes activities related to security and rule of law as per IDA's mandate) while other donors are supporting other reform areas." (World Bank, 2004c: paragraph 99).

[2] The policy areas in the 1st operation: (a) Macroeconomic framework; (b) Budget management and public administration; (c) Human development; (d) Private sector development (from the Annex with the Policy Matrix); 2nd operation: (a) Macroeconomic framework maintenance; (b) Fiscal and public finance management issues; (c) Public administration reform; (d) Human development; (e) Private sector development. (From the LDP, section III); 3rd operation: (a) Maintenance of satisfactory macroeconomic framework; (b) Fiscal and Public Finance; (c) Public administration reform; (d) Human development; (e) Private sector development. [From the Letter of Development Policy, Section III]. The policy areas/activities in the PSIB operations are a subset of the reforms of the entire government development plan. The Program Document for the first operation and the series has a Policy Matrix annexed that restricts itself to *the reforms of the series only* (and it discusses both the first and second operation). However, the Program Documents for the second and third operations don't have a Policy Matrix annex for the operation. Instead, the Letter of Development Policy has a matrix attached *that covers the entire government reform program for the national development plan.* The policy areas for the individual PSIB operations are described in Section III.

b) **Strengthening public administration and fiscal management** through a restructured, downsized and rationalized central government, strengthened policy design and implementation capacity in ministries, and updated legislative framework for the Civil Service; there was also a commitment to making payroll payments in time with full amounts and adequate controls, improved human resource and pay and pension systems adequate to recruit, retain and motivate skilled civil servants, and improvement of local government infrastructure, strengthened ministerial buy in and oversight on public administration reform (PAR), adequate information of Cabinet and broad consensus built on global public administration reform program, search for adequate representation of minority groups and women in civil service, fiscal sustainability of reforms achieved, overstaffing under control, strengthened skill base established throughout government, and more efficient service delivery; in addition, there was an undertaking for medium term fiscal framework, optimized cash management with appropriate budget controls, budget execution reports and tax package, financial management information system, and timely preparation and release of financial accounts, and audit of financial accounts and procurement in line with international standards;

c) **Enhancing human development** through increasing budget allocations for health and education and evaluation of experience with implementation of Basic Package of Health Services delivery by the Ministries of Public Health and Finance so that future policies about the role of the government are based on empirical evidence, increase in enrollment ratio in higher education, universities with minimum international standard, and increase in public university cost financed from fees.

d) **Promoting private sector development** through transparency in tax payments, improved registration procedures, implementation of a sound, efficient and competitive legal and regulatory environment, creation of a modern central bank, development of an efficient financial sector, increased access to electricity, development of international trade, increased domestic revenues, improved efficiency of state owned enterprises, adequate financial management and oversight of fiscal risks, increase in the efficiency of the customs clearance process, limiting direct interventions of the government and improved regulatory framework, lesson conflict over land, achieving modernization and rapid expansion of telecommunications networks and services and ensuring universal access across Afghanistan, and increasing private investments in oil, gas, and mining.

2.3 The main actions taken by the series to support these policy areas, and the anticipated outcomes, are given in Table 1.

RELEVANCE OF THE OBJECTIVES

2.4 **Substantial**. The series objectives were drawn from a Government development and reform strategy (Afghan Authority for the Coordination of Assistance, 2002), and reaffirmed in a subsequent strategy (Islamic Republic of Afghanistan and others, 2004), and at the Afghan Development Forum in 2005. The objectives remain consistent with all three pillars of the Bank's Interim Strategy Note (FY12-15).There is unclear language in the Program Documents, as they discuss how the objectives are expected to impact human development and private sector development: It is stated that the reforms: "will in turn facilitate a more

efficient allocation of fiscal resources to priority activities in the areas of human development and private sector development (e.g. World Bank, 2004c: 25)." However, these are not objectives – they are pointing to outcomes of the reforms in public administration and fiscal management in those two sectors. Finally, the statement of objectives could have been improved by pointing specifically to the intended public administration and fiscal management outcomes.

Table 1: Actions supported by PSIB series to enable policy areas

Policy area	Key actions supported	Indicative outcomes
Maintaining macroeconomic stability	Fiscal management reforms, modernizing investment and financial sector regulations and processes, and restructuring state owned enterprises	Satisfactory macroeconomic framework
Strengthening public administration and fiscal management	Adoption of budgets, public finance and audit laws, medium term fiscal framework, financial management information system, budget execution reports and tax package; civil service and pension laws, enhanced salary scheme	Multi-year, comprehensive, transparent and result-based budget system; coordination of external assistance with Government's strategy and budget; increased domestic revenues and certainty of revenue system; available data to feed into policy making; restructured, downsized and rationalized central government; strengthened policy design and implementation capacity in ministries; updated legislative framework for civil service; payroll payments on time, with adequate controls; improved human resources processes; strengthened local governments
Enhancing human development	Increasing budget allocations for health and education, improved monitoring of health delivery, teacher assessment and certification	Progress towards universal basic health coverage; reduction in mortality and morbidity rates; empirical data on health service delivery to inform future policies; progress towards universal primary education; improved access to and quality of higher education[3]
Promoting private sector development	Modernizing investment and financial sector regulations and processes, and restructuring state owned enterprises	Improved business environment, including transparency in tax payments; a sound, efficient and competitive legal and financial regulatory environment, with a modern central bank; improved efficiency of state owned enterprises

Source: World Bank, 2004c: Annex 1.

[3] These outcomes were also directly supported by investment operations by the Bank and other development partners.

RELEVANCE OF DESIGN TO THE OBJECTIVES

2.5 **Substantial.** The proposed fiscal management actions supported by the operation (including adoption of budgets, public finance and audit laws, medium term fiscal framework, financial management information system, budget execution reports and tax package) are clearly linked as part of a causal chain to the objective of deepening, broadening and sustaining fiscal management reforms, and the expected intermediate outcomes of adoption of a multi-year, comprehensive, transparent and result-based budget system; coordination of external assistance with Government's strategy and budget; increased domestic revenues and certainty of revenue system; and available data to feed into policy making.

2.6 Likewise, the proposed public administration actions supported by the operation (including civil service and pension laws, enhanced salary scheme) and related actions to improve service delivery in health, education and social protection are also clearly linked to the objective of deepening, broadening and sustaining public administration reforms, and the expected intermediate outcomes of restructured, downsized and rationalized central government; strengthened policy design and implementation capacity in ministries; updated legislative framework for civil service; payroll payments on time, with adequate controls; improved human resources processes; and strengthened local governments. There were also expected outcomes in health (progress towards universal basic health coverage; reduction in mortality and morbidity rates; empirical data on health service delivery to inform future policies) and education (progress towards universal primary education; and improved access to and quality of higher education) that benefitted indirectly from support from the series, and directly from investment operations from the Bank and other development partners.

2.7 Other actions supported by the operation (including modernizing investment and financial sector regulations and processes, and restructuring state owned enterprises) are clearly linked to maintenance of an adequate macroeconomic policy framework, and the expected intermediate outcomes of improved business environment, including transparency in tax payments; a sound, efficient and competitive legal and financial regulatory environment, with a modern central bank; and improved efficiency of state owned enterprises. Given the conditions prevailing in Afghanistan at the time, the programmatic approach provided the flexibility needed to fine-tune and update the program of support as needed. The adoption of a programmatic series of operations was fully justified in the circumstances of Afghanistan.

MONITORING AND EVALUATION (M&E) DESIGN

2.8 Due to the lack of data, poor data quality, and limited M&E capacity, the first PSIB had a limited M&E framework focusing on process and inputs. Starting with the second PSIB, a more comprehensive M&E system was designed, but its implementation and utilization were frustrated by the same constraints. The framework focused on progress and input indicators, but also included outcome indicators that were outside the Government's control, and that were considered important to evaluate the overall reforms. There were 60 indicators in the framework, with a 2003/4 baseline and 2007/8 target provided for each one. Of these, supervision focused on 11 key indicators, 10 of which had baseline values.

Implementation

2.9 The IDA grant for PSIB1 for US$80 million was approved in March, 2004, disbursed upon effectiveness in August 2004, and closed on schedule on March 20, 2005. PSIB2 was approved on December 13, 2005 for US$80 million (grant), disbursed upon effectiveness December 27, 2005, and closed on schedule on September 30, 2006. PSIB 3 was approved on May 29, 2007 for US$80 million (grant), disbursed upon effectiveness July 11, 2007, and closed on schedule on March 21, 2008. The first PSIB was a development policy credit. The second and third PSIB were development policy grants, following the policy of IDA14 that debt sustainability would form the basis for grant allocation. The series was initially planned to include two operations. Good performance on the first operation and the availability of grant funds led to an agreement by the Bank and Government to add a third operation. There was slower than expected progress toward the end of PSIB I and the first half of PSIB II due to a new Cabinet being formed in 2004. However, once the new leadership team took ownership of the reform program, performance improved. All prior actions were achieved prior to the approval of each operation, and there was satisfactory progress on fulfillment of triggers.

2.10 The lack of a comprehensive Government strategy underpinning the series led to a very broad policy matrix. Only after the series was concluded was The Afghanistan National Development Strategy approved by the President and Cabinet in April 2008 and submitted to the Bank and IMF as Afghanistan's Poverty Reduction Support Paper. The Strategy identified 22 National Priority Programs (NPPs) under three overarching goals: (i) Security; (ii) Governance, Rule of Law and Human Rights; and (iii) Economic and Social Development. The Bank's strategy was aligned with these goals, with World Bank Group support directed toward the latter two. All Bank Group programs were also aligned with the National Priority Programs, but the priority programs represent such a comprehensive list that prioritizing key areas for strategic support, building on the Bank Group's comparative advantage, has been a bigger challenge than alignment with government strategy. Although the government has tried to consolidate these into a smaller number of priorities, the 22 priorities remain valid today.

MAINTAINING THE MACROECONOMIC FRAMEWORK

2.11 During the first operation, macroeconomic stability was maintained under an IMF Staff-Monitored Program (see Annex B). Real Gross Domestic Product (GDP) growth was 16.4 percent for 2005/6, excluding opium, exceeding the target of 8 percent. Revenue mobilization improved in 2005/06 to 6.4 percent of GDP, exceeding the target of 6 percent, up from 4.5 percent the previous year and meeting the commitment to the IMF program (IMF 2006, 2008). This achievement was supported by gazetting tax measures, creating a Large Taxpayer Office and approval of Priority Reform and Restructuring (PRR) for regional offices, and creating a Fiscal Policy Unit. Improved banking arrangements also helped to ensure a steady flow of collected revenues to the Treasury Single Account, the development of which was supported mainly by complementary Bank technical assistance, thus contributing to revenue performance (World Bank 2005: vol 1, 13). There was also good progress in statistical and data management, and the exchange rate remained stable.

2.12 During the second operation, real GDP growth was estimated at 5.6 percent in 2006/07. While less than the target of 8 percent set for the program because of a severe drought, the foundation was laid for a post-drought rebound in agricultural output in the following year, which contributed to an estimated 13.7 percent GDP growth in 2007/08. Domestic revenue reached 8.2 percent of GDP (2006/7), fulfilling a prior action and exceeding the target value of 6 percent (IMF 2008, 2011). The quality of the budget process improved over time with the gradual introduction of a medium-term fiscal framework, which became institutionalized in 2005, and strengthened to include the cost of pay and grading reform in the army, police and civil service. However, fiscal analysis underlying the framework would have improved had there been greater availability of data on donor activity outside the core budget, given the high dependence on external support.

2.13 During the third operation, a stable macroeconomic framework was maintained, as evidenced by 7 satisfactory reviews of the IMF's Staff-monitored Program and one review of the Poverty Reduction and Growth Facility, and the successful completion of IMF programs throughout the period of the PSIB series. Real GDP growth reached 13.5 per cent in 2007/08, exceeding the target of 8 per cent. Domestic revenues reached 11 per cent in 2010/11, exceeding the medium term target of 8 percent (IMF 2011).

IMPLEMENTATION OF MONITORING AND EVALUATION

2.14 Eleven key indicators were regularly monitored in the Implementation Status and Results Reports (ISRs) during the operation. The Bank team needed to provide extensive assistance in implementing the monitoring, due to the lack of statistical data and Government monitoring capacity. During implementation, baseline data estimates and data reported in the ISRs was subject to revision, and mainly covered process and input indicators. There were also outcome and impact indicators that were beyond the government's control. Despite these limitations, the M&E framework was an important tool in tracking progress and linking to medium-term outcomes.

Achievement of the Objectives

DEEPEN, BROADEN, AND SUSTAIN FISCAL MANAGEMENT REFORMS

2.15 **Substantial.** Good progress was registered in the first operation in strengthening fiduciary standards, including gazetting of the Public Finance and Expenditure Management Law, implementing a new Government Financial Services compliant chart of accounts, implementing the Afghanistan Financial Management Information System in two ministries and in the province of Herat, monthly reconciliations prepared (but with unreconciled differences), approval of the PRR plan for the Internal Audit Department, preparation of monthly fiscal reports, and release on the Ministry of Finance's website, 2003-4 financial accounts approved by Cabinet, completion of external audit of most Government accounts for 2003-4, submission to Cabinet of a Procurement Law, and decision to create a Procurement Policy Unit. Some targets were not met, for example, external assistance on budget, which was 19.9 percent for 2005/6, up from 14 percent the previous year, but below the target of 30 percent. Only 38 percent of the core development budget was implemented, below the target of 50 percent. In addition, while there was improvement in the ARTF

eligibility ratio for non wage items[4], the targets were not met. Some triggers were delayed, such as the enactment of a new Procurement Law, while others (preparation of a medium-term fiscal framework) were met, allowing to proceed with the negotiations of the second operation.

2.16 During the second operation, several tax measures, including introduction of road tolls, restructuring of import tariffs and tax administration improvements, combined to raise the tax to GDP ratio from a base of 4.5 percent to an estimated 7.5 percent in 2006/07, above the target of 6 percent. The share of external aid incorporated in the budget was an estimated 18.5 percent in 2006/07, compared to the target of 30 percent, for the full PSIB program, and down from 19.9 percent in the previous year.

2.17 Actual budgetary spending as a percent of budgeted amounts increased to 48 percent in 2006/07, from some proportion less than this, compared to a target of 50 percent for the full PSIB program. Progress was also made toward the goal of increasing the share of spending eligible for reimbursement to the ARTF, an indication of improving fiduciary standards. The eligible share of wages and other spending respectively was 93 and 65 percent in 2006/07, compared with a target of 95 and 80 percent. There has been some improvement in public access to key financial information as well as in the regulatory framework for budgetary policies. In addition, the field mission found that the public financial management (PFM) action plan was adopted by Cabinet and the relevant law and regulations were notified in the gazette and being enforced. Procurement procedures were issued, the Procurement Policy Unit created and functioning, and state financial accounts created and submitted to Parliament. Progress was made in the Verified Payroll Plan, and this progress has been sustained and built on in subsequent years. Payroll management has improved through direct deposits of salary payments to the bank accounts of 290,000 out of 450,000 government employees registered under the verified payment program as of December 2011, compared with 6,000 in 2005. A database is maintained for 669,000 registered government employees (including both civilian and security personnel), which is the basis for setting up payroll applications in 70 locations in Kabul and 9 provincial Mustofiats. Along with actions supported by the series, the use of the ARTF in paying salaries and consultant costs has ensured timely and reliable payment to staff, while facilitating quick disbursement of donor funds. At the Central Statistics Office, training was carried out to use National Risk and Vulnerability Assessment data. While PRR for the Office was implemented in 2005, the capacity of its staff remained weak.

2.18 During the third operation, actual development -budgetary spending as a percent of budgeted amounts increased to 55 percent by the end of the PSIB series from 31 percent in 2004/5, and above the original target of 50 percent (World Bank 2008a, 2011d). The share of external aid incorporated in the budget, which was a low 14 percent in the base year increased to an estimated 34 percent in 2007/08, above the target of 30 percent. The February 2012 mission found the total share of on-budget assistance at that point was only 27 percent, compared with a 25 percent share 2010 (World Bank, 2010).

---

[4] This refers to the ratio of expenditures submitted for reimbursements that are eligible for reimbursement, based on ARTF criteria. An improved (lower) ratio indicates that the public financial management framework is stronger, since it is able to distinguish eligible from ineligible expenses.

2.19 Progress was also made towards the goal of increasing the share of spending eligible for reimbursement to the ARTF, an indication of improving fiduciary standards. The eligible share of wages and other spending increased from 93 and 65 percent, respectively, in 2006/07 to 97 and 89 percent, respectively, in 2007/08, compared with a target of 95 and 80 percent. There was continuing improvement in public access to key financial information as well as in the regulatory framework for budgetary policies.

2.20 IEG's Afghanistan Country Program Evaluation examined the comparatively favorable Public Expenditure and Financial Accountability (PEFA) assessments and their improvement between 2005 and 2007. For example, the 2007 PEFA assessment shows that of 24 process indicators (PI-5-28), eighteen had improved since the previous assessment, including improvements in areas that other countries find difficult to achieve.[5] There were improvements in a number of indicators measuring areas supported by the series, including budget comprehensiveness, multi-year perspective, predictability in funding, recording and management of cash balances, procurement, quality and timeliness of financial statements, and legislative scrutiny of budgets and audit reports.

2.21 While these improvements as measured in the PEFA assessments were impressive, they represent only the initial phase of reform for at least three reasons. First, many functions were performed with extensive consultant support to Government staff. Second, the assessments covered only the portion of expenditure managed through government systems, whereas 83 percent of documented government expenditure is managed through special donor arrangements outside of the government budget. Third, three out of four PEFA outcome indicators (PI-1-4) are given the lowest "D" rating, indicating that with an exception of good performance on revenue (for example, the increase in customs revenue over the period 2003 – 2010 (1,392 percent) far exceeds the increase in trade (313 percent)), improved processes aren't yet translating into higher level, overall expenditure management results, This is to be expected in this relatively early phase of the reform cycle, and is in part because of the use of contingencies in the operating budget due to provisions for security and the Incentives Program.

DEEPEN, BROADEN, AND SUSTAIN PUBLIC ADMINISTRATION REFORMS

2.22 **Substantial.** During the first operation, a Presidential Decree on a Code of Conduct was signed, a Civil Service Law adopted, and about 80-100 merit-based appointments per month were made by the Independent Appointment Board. Implementation of the Verified Payroll Plan proceeded as planned, with personal identification numbers and photo identification cards issued to 6,000 employees, implementation of individualized salary payments to over 24,000 employees including 6,000 receiving payments in banks, and 400 directly into employee bank accounts, and development of a payroll database in 2 ministries.

---

[5] It is instructive to analyze these based on 3 pairs of features: *De jure* versus *de facto* establishment of a public financial management (PFM) system element; PFM system elements with actor concentration versus actor deconcentration and PFM system elements that are *upstream* in the PFM cycle versus *downstream*. In Afghanistan, 72 percent of the improved features were more difficult to achieve, downstream ones (compared with 32 percent for 32 countries with repeat assessments [PEFA Secretariat, 2010]), 61 percent were de facto (compared with 31 percent), and 50 percent were deconcentrated (compared with 26 percent).

Central Government employment was stable except for teachers. A census of Government employees was initiated, a labor market survey completed, draft training policy paper prepared, lateral entry program approved, and data collection for pension analysis started.

2.23 However, there were also shortcomings. 15,000 positions were approved for PRR, allowing enhanced pay in exchange for organizational restructuring. However, monitoring of this and other achievements focused more on quantitative rather than qualitative indicators. IEG's 2012 field visit confirmed that the quality of organizational restructuring and related reforms has been highly uneven. The draft pension regulation was completed, but the proposed plan of financing, and plan for modernizing pension administration were not completed due to additional analytical requirements.

2.24 The Bank's overall approach to public administration reform, also adopted by this series, used a variety of incentive schemes to motivate key Afghan civil servants and other contracted specialists, offering, including contract pay rates up to eleven times the highest rate for civil servants (even after pay and grading reform). This is politically and financially unsustainable without donor financing. These relatively well-paid staff, often referred to as the "second civil service," include in 2012 over 5,000 key personnel, receiving top ups to their normal civil service pay, that help adopt many of the structures, processes, and systems recommended in the Bank's analytical and advisory work and operations. In addition, there are many more contracted staff working in field and support positions. The Bank commissioned a separate study on this issue.

2.25 Making headway in the area of sub-national administration has also proved difficult. Afghanistan is a unitary state, with appointed governors, and a limited sub-national presence of line ministries. While the Constitution provides for elected provincial, district and village councils to take part in securing provincial development, these provisions have even today not been implemented. The operation supported a pilot PRR reform in the Governor's Office of Balkh and in 6 districts, and a draft policy paper on provincial planning and development council was under discussion, but a sub-national strategy on allocating functions and accountabilities to levels of government remains to be fully defined.

2.26 In addition to supporting core public administration reform, the operation supported outcomes in part facilitated by these reforms in the health and education sectors. Good progress was made towards the benchmarks, including establishing baseline assessments on delivery of health services, completion of a school survey, introducing a certificating program for teachers, drafting a Higher Education Law, and extending the National Solidarity Program to rural areas. Prior actions supported increased budgetary allocations in the health, education, and financial sectors, and in the corporate regulatory framework.

2.27 During the second operation senior merit-based appointments were 1,474 in 2006/07, compared with a target of 1,200, while the size of the public service declined from 111,000 in the base year, to 92,180 in 2006/07. The field mission found that the Civil Service Law was gazetted, a Civil Service Reform Implementation Plan with cost estimates and implementation budget adopted, and a qualitative review of merit based recruitment and action plan adopted, and at least 15,000 positions approved under the PRR program, and individualized salary payments to 15,000 government employees. A policy note was

prepared to enhance the role of women in the civil service, fulfilling a prior action. Progress on pensions was delayed due to additional analytical requirements.

2.28 Development budget allocations for health increased from 0.3 percent of GDP in 2005/6 to 0.6 percent of GDP in 2008/9, and were maintained at the same level through 2010/11, the most recent year for which actual data are available. Development budget allocations for education increased from 0.3 percent of GDP in 2005/6 to 0.8 percent of GDP in 2008/9, and 0.7 percent of GDP in 2010/11 (IMF 2008, 2011). In addition, the administrative reforms supported by the second operation in part facilitated reforms in the health, education, and financial sectors, and in the corporate regulatory framework. The Basic Package of Health Services covered about 90 percent of the population, with major improvement in services. For example, coverage of prenatal care increased from 5 percent in 2003 to 71 percent in 2006.[6] These areas were directly supported by parallel investment operations from the Bank (e.g. Health Sector Emergency Reconstruction and Development Project) and other development partners. Prior actions from the series focused on the sectors were relatively minor, including a baseline evaluation of health service delivery performance. However, the macroeconomic improvements supported by the operation likely contributed to these strong results, *inter alia* because an estimated 76 percent of health costs are financed from private sources.

2.29 In terms of private sector development, the prior actions included such actions as gazetting amendments to the insurance law, publication of financial statements of the Central Bank, and preparing of a list of and policies for state-owned enterprises. Progress was made to improve the legal and regulatory framework. Two business organization laws for partnerships and corporations, and two complementary laws for arbitration and commercial reconciliation were enacted in January, 2007, but were not ratified by Parliament and implemented. The tax framework was clarified. Three industrial parks were under development. However, securing property rights remained a challenge, and complex sectoral licensing mechanisms hampered private investment.

2.30 In the financial sector, good progress was achieved with the enactment of a new Central Bank Law and a new Banking Law, providing for satisfactory prudential regulations, while many functions/activities of the Central Bank were strengthened and modernized. Some commercial banks were re-licensed. Good progress was also achieved in streamlining the state-owned enterprise sector. There was gazetting of income tax amendments on tax incentives for investors, and some drafting of relevant laws. However, progress was modest and uneven in reviewing the legislation pertaining to private investment, due to capacity limitations in the Ministry of Justice, such as for English language translation.

2.31 During the third operation, a Civil Service Law was enacted in June 2008, which strengthened the legal framework for civil service management, but implementation has run into obstacles as determined by a qualitative review of merit-based recruitment. The Public Administration Reform Steering Committee, including a Deputy Minister and an Advisor to

[6] However, health indicators remain among the worst in the world. In education, enrollment increased from 1 to 5 million from 2002-2006, but the net enrollment rate in primary education was still only 25 percent, with serious concerns about quality.

the President, approved a costed plan for implementing civil service reforms. There were delays in finalizing the Pay and Grading policy, but satisfactory progress given the context. Senior merit-based appointments have grown from 1,474 in 2006/07 to 2,304 in 2007/08, compared with a target of 1,200, while the size of the public service (excluding education and uniformed staff) declined from 111,000 in the base year, to 92,180 in 2006/07 and to 95,693 in 2007/08.

Ratings

OUTCOME

2.32 **Satisfactory.** The rating takes account of the substantial relevance of objectives and design, and the achievement of the objectives in the medium-term perspective of a programmatic approach. There were substantial results achieved under each objective, including new laws, policies ,and regulations; organizational restructuring and enhanced pay; modernized systems for payroll; increased revenue and merit-based civil service appointments; improved procurement processes, tax administration, and expenditure management, including increased shares of the development budget for health and education; and better performance on procurement. These achievements have been sustained to the present day, although there are persisting problems of uneven quality in enhancing civil service performance. While the National Solidarity Program and other project units continue to function well, there has otherwise been limited progress in strengthening the very weak capacity of sub national government units.

RISK TO DEVELOPMENT OUTCOME

2.33 **High.** The security situation started to deteriorate in 2005 (see Figure 1), putting at risk the Government's capacity to manage the budget, deliver services, and maintain a favorable investment climate. The new Cabinet formed in December 2004 led to a slowing down of some reform initiatives, such as PRR and pensions, and there was a risk that there wouldn't be the same reform commitment in the government formed in 2004/5 as in the previous Cabinet.

2.34 From the present vantage point of 2012, there are a number of other risks that must be considered. First, many of the results achieved have been dependent on a combination of foreign technical assistance, and a variety of incentive schemes put in place to motivate key Afghan civil servants and other contracted Afghan specialists. While contracted staff are meant to provide both operational and capacity building support, the latter objectives were often relegated to the background in lieu of providing operational support. In the transition to the scheduled pullout of foreign forces in 2014 and beyond, this presents a financing risk because the heavy reliance on consultants and staff with enhanced pay is only affordable if donor funds are sustained. There is also the social risk that civil servants not receiving enhanced pay will be reluctant to support efforts led by their well paid colleagues. There is no agreed plan to address possible resentment arising among these different categories of staff. This in turn leads to a key political risk that as foreign forces leave, the regime may find it necessary to roll back the administrative improvements achieved to date, in order to make greater use of public resources to pay off elite supporters willing to oppose militant groups. There is the added political risk

that the dominance of security forces in the public payroll and operational budget will crowd out other expenditures, and give the leaders of these forces undue influence.

BANK PERFORMANCE

Quality at entry

2.35 **Satisfactory.** The Bank crafted a design that builds on a satisfactory macroeconomic policy framework evidenced by the implementation of a 12 month Staff Monitored Program supported by the IMF and concluded in March, 2005. The operation incorporates this framework and is consistent with its structural benchmarks. The operation is also consistent with ARTF support, which is integrated in the medium-term fiscal framework supported by the series, while ARTF provides key fiduciary standards to mitigate fiduciary risks. The programmatic approach supported small steps towards improvements in public administration and fiscal management to address the lack of core competencies and functioning institutions. The design took into account legacy systems, such as vote books used throughout the 1980s and 1990s. Fiduciary risks are acknowledged to be high, but the operation and other parallel ones supported many steps to mitigate these risks. Key exogenous factors are identified, including political and security risks that are largely outside of the Bank's mandate. The areas targeted for support were well identified, although in some areas (public administration, regulatory framework) somewhat overambitious given the weak security and capacity environment.

2.36 The operation was supported by comprehensive analytical work, including Islamic Republic of Afghanistan and others (2004), World Bank (2003a, 2003b, 2003c, 2004a, 2004b, 2005), and policy notes on functions and structures of government, pensions, monitoring government employment levels, building core skill capacities, and pay policy for provincial administration, among others. In addition, the Bank had supported a comprehensive pay and employment model, two proposals for programs to support the merit based pay and recruitment and the update of two draft decrees.[7]

2.37 There were minor shortcomings in the analytical work underpinning the series, as pointed out in IEG's Country Program Evaluation. Judging from the analytical reports on Afghanistan, a reviewer would conclude that the only analysis of public financial management issues has been done by the World Bank, with the Fund in a supporting role. The main volume of the Public Finance Management Review does have a number of references, albeit mostly to Bank and IMF reports, but the others have very few. The issue is not lack of bibliography, however, but lack of evidence in many of the reports that global knowledge was used to inform the analysis. The tacit knowledge embodied in the experienced task teams undoubtedly helped. Also, it is entirely understandable that the early "firefighting" period afforded neither time nor attention to non-Afghan experiences. By 2004 or thereabouts, however, it could be expected that the Bank analytical work would demonstrate familiarity with and utilization of the substantial research and analysis done by

[7] Support for the policy notes and other work was from the non-lending technical assistance project, Civil Service Reform Dialogue.

entities other than the Bretton Woods institutions, as well as consider the relevant experience in other fragile states.

2.38 The series also leveraged much more funding for parallel support from, *inter alia*, the IMF, UK Department for International Development (capacity building in the Budget Department and the Fiscal Policy Unit), United States (support for private sector legal framework, capacity building in audit and revenue departments, and strengthening supervision capacity at the Central Bank, education), the Asian Development Bank (support to the provincial office of the Ministry of Finance, and to natural resources management and transport), Germany (trade and investment), Italy (Justice), Japan (transport), Denmark (human rights), and the United Nations system (education, urban management, gender, environment).

2.39 Based on the first operation, the triggers for a second operation were limited, well defined and clearly circumscribed to the reform areas targeted, thus helping to maintain reform momentum and avoid disappointment. These triggers included raising domestic revenues, preparation of a medium-term fiscal framework, progress on human resources management, improved fiduciary standards, proper M&E of health and education, and continued progress on financial sector and state owned enterprise reform. The Bank team demonstrated sensitivity to the local context in design and implementation, with active support from the Bank's Country Office in Kabul. Approval was delayed for two months to give the Government time to complete its 2004/5 budget that provided for all funds flowing through the Government's accounts for the first time.

2.40 The strategic relevance and technical quality of the Bank's public financial management operations are commendable, especially considering the difficult country context. During the PSIB series, the emphasis was appropriately on expenditure control and the establishment of basic mechanisms for cash protection and management, including single treasury account, payroll, and simple accounting.

2.41 Fiduciary risks are acknowledged as high, but were mitigated by, among other things, triggers on gazetting (approval and notification) of the PFM and Procurement Laws, and an unusually comprehensive Public Finance Management Review providing the analytical basis for fiduciary support of the PSIBs. Political, security, macroeconomic, and implementation risks are also carefully examined, and mitigation measures taken. Putting the operation as part of a series gave the government the incentive to continue reform efforts where there was political support, so as to ensure a predictable flow of budgetary support.

Quality of supervision

2.42 **Satisfactory.** There was continuous dialogue, regular supervision missions, and parallel work during implementation on a flagship study assessing all aspects of the country's PFM (World Bank, 2005). The Bank earned a leadership role among donors in public administration reform by the excellence of specialists on the ground, and quality of their work. Former Bank staff working in the Government also played a useful bridging rule with their links both to donors and to rival political factions. Based on these considerations, the overall Bank performance rating is **satisfactory.**

BORROWER PERFORMANCE

Government Performance

2.43 **Moderately Satisfactory.** Government commitment varied across the reform areas. There was strong support for improving financial management, and expanding the National Solidarity Program. Other reform areas proved more challenging. For example, the new Cabinet formed late in December 2004 initially had only tentative ownership of the PRR and pension reforms which slowed down implementation.

Implementing Agency Performance

2.44 **Moderately Satisfactory.** Implementing agency performance also varied considerably. There was strong leadership from the Ministry of Finance, greatly facilitating key results such as maintaining macroeconomic stability, increasing revenues, and enhancing fiscal management. On the other hand, a leadership change at the Independent Administration Reform and Civil Service Commission meant the need for a steep learning curve, and delayed implementation. Based on these considerations, overall borrower performance is **moderately satisfactory.**

MONITORING AND EVALUATION

Design

2.45 As discussed above, M&E design was enhanced starting with the second operation to include over 60 indicators, measuring a combination of inputs and outcomes, some of which were outside the Government's control but were needed to evaluate overall reform progress. The M&E framework included many more fiscal management and public administration indicators than did the policy matrix. However, the list was too long to monitor regularly, so only a subset of eleven indicators was regularly monitored. One of these lacked a baseline, making it difficult to assess progress. The design could have been improved had it included intermediate outcomes that were more closely tied to the supported actions.

Implementation

2.46 Government counterparts provided access to key data, and the Bank project team enabled regular reporting on indicators in aides memoire and supervision reports. The shift from PSIB 2 towards more quantitative indicators helped to make assessment more straightforward. The Public Finance and Economic Management Law provided a good basis for reporting, and the PEFA assessments carried out by the Bank provide performance indicators that are used in over 100 countries to measure reform progress. Challenges included the delay of up to a year between the end of the Afghan fiscal year and the availability of usable data for that year. These challenges were to be expected in the Afghan context.[8]

[8] Statistical capacity has subsequently improved with the Statistical Master Plan prepared in parallel with the PSIB series, with additional support from the Bank and other partners.

Utilization

2.47 As discussed above, the M&E framework was important for tracking progress and linking supported actions to medium-term outcomes. While the M&E framework provided essential information to help keep the reform programs on track, M&E utilization could have been greater if data and capacity had been stronger. Based on M&E design, implementation, and utilization, overall M&E performance is **substantial.**

3. Strengthening Institutions Development Policy Grant (DPG, 2009-10)

Objectives, Design, and Relevance

OBJECTIVES

3.1 The core development objectives are to: (i) improve fiscal policy and planning and public financial management, (ii) strengthen public administration reforms and sub-national administration, and (iii) increase transparency and accountability in the management of public finances (World Bank, 2009e: paragraph 56).

POLICY AREAS

3.2 The four policy areas supported by this single-tranche operation were aligned with the objectives, and presented in Table 2. The grant supported key policy areas in the 2008-2013 Afghanistan National Development Strategy, including the governance and rule of law pillars, and two cross cutting issues: anti-corruption and capacity development. More specifically, it enabled public institutions to perform effectively with a focus on results, through pay and grading restructuring, merit based appointments, and rationalizing and restructuring government institutions to reflect core functions and responsibilities. The National Strategy supported long term improvements by identifying pragmatic opportunities for action in the short term. In a highly uncertain context, this approach is appropriate. The operation's objectives addressed key challenges of implementing the planned US$50 billion spending over the period, including prioritizing sectoral programs, enhancing M&E, increasing domestic revenue, enhancing aid effectiveness, and improving absorptive capacity through better quantity and quality of budget implementation.

RELEVANCE OF THE OBJECTIVES

3.3 **Substantial.** The objectives are consistent with the Afghanistan National Development Strategy and with one of three pillars of the Interim Strategy Note (FY12-14), which calls for "building the capacity and accountability of the state to its citizens to provide services that are affordable, accessible and adequate". They were aligned with country conditions by building on extensive project and analytical work (Table 3 and Box 1). One shortcoming is that the objective to strengthen public administration reform and sub-national administration could have been treated as two separate objectives to better facilitate assessment of progress.

Table 2: Actions supported by the Development Policy Grant to enable policy areas

Policy area	Key actions supported	Indicative outcomes
Maintain macroeconomic stability	Sound fiscal management and fiduciary standards for all resources channeled through the Afghan core budget	Satisfactory macroeconomic framework
Improve fiscal policy and planning and public financial management	Medium-term fiscal framework, reorganization of Budget Department, Procurement law amended	Timely budget planning, submission to Parliament, and implementation; improved procurement processes and fiduciary standards
Strengthen public administration reforms and sub-national administration	Gazetting of Civil Service Law, increase in direct salary deposits to civil servants, initial stage of sub-national financing reform	Size of civil service maintained, with increase in number getting enhanced pay, and new pension regulations improved
Increase transparency and accountability in the management of public finances	Cabinet commitment to Extractive Industries Transparency Initiative (EITI), establish Internal Audit Department in the Ministry of Finance.	Steps taken towards EITI accession, reviews completed of new internal audit units, fraud investigation unit, and IT Audit section, and audit of AFMIS initiated

Source: World Bank, 2009e.

Table 3: Bank operations and analytical work complementary to the DPG

Projects	Emergency Public Administration Project I and II, the PSIB Series (3 operations), Civil Service Reform, Public Administration Capacity Building, the Public Financial Management Reform I and II, the IMF's Poverty Reduction Growth Facility, and support from United Nations Development Program, Asian Development Bank, European Commission, and United Kingdom Department for International Development.
Analytical work	Building an Effective State: Priorities for Public Administration Reform in Afghanistan (2008), Fighting Corruption in Afghanistan: Summaries of Vulnerabilities in Corruption Assessments (2009), Inter-governmental Fiscal Relations and Sub-national Expenditures (2008), E-Procurement: Readiness Report and Implementation Plan for Afghanistan (2007), Managing Public Finances for Development (2005), and Public Expenditure Review (2010), with the last two not cited in the Program Document, but closely aligned with it.

Source: World Bank, 2009e and other Bank documents.

RELEVANCE OF DESIGN TO THE OBJECTIVES

3.4 **Substantial.** The proposed fiscal actions supported by the operation (*inter alia*, Medium-term fiscal framework, reorganization of the Budget Department, and amendment of the Procurement Law) are clearly linked as part of a causal chain leading to the outcomes of timely budget planning, submission to Parliament, and implementation; improved procurement processes and fiduciary standards complied with. Likewise, the administrative

actions supported (*inter alia*, gazetting of Civil Service Law, increase in direct salary deposits to civil servants, initial stage of sub-national financing reform) are logical steps along a causal chain towards the outcomes of maintaining the size of civil service, increasing numbers getting enhanced pay, and pension regulations improved, and accountability actions (*inter alia*, increased transparency and accountability in the management of public finances, Cabinet commitment to Extractive Industries Transparency Initiative, Internal Audit Department established in the Ministry of Finance) are logical steps towards the outcomes of EITI accession, and more effective controls on Government financial processes. The combining of DPG policy support with technical assistance from the Bank and other partners took into to account the extraordinary difficulties of the Afghan context.

3.5 However, a minor shortcoming is that the design did not give enough attention to budget preparation, medium-term expenditure programming, consultations, fiscal sustainability and other upstream aspects of public financial management. Expenditure control in itself does not improve allocative efficiency or operational management; downstream problems in procurement are often caused by either collusion or inadequate planning at the budget preparation stage; the highest degree of protection against fiduciary risk does not mitigate against an unrealistic budget being implemented; the appropriate basis of accounting and types of controls and reporting depend on the same capacity considerations that underpin the choice of budgeting system and nature of the budget process; and vice versa; improvement in budget preparation and execution cannot be recommended without considering the nuts and bolts of procurement and financial management systems and practices .

DESIGN OF MONITORING AND EVALUATION

3.6 The M&E framework is appropriate, with baselines for each target, and time-bound, measurable indicators for intermediate outcomes that could reasonably be attributed to the actions supported. M&E would have been enhanced if the objectives of strengthening national and sub-national administrative reform had been treated as two separate objectives.

Implementation

3.7 The single tranche operation was approved by the Board on June 4, 2009 and disbursement was made September 9, 2009, following project effectiveness on August 24, 2009. The operation was closed on schedule on August 31, 2010. The operation supported public financial management, procurement and related reforms that do not have direct effects on environment, resettlement, or other safeguard issues

MAINTAINING THE MACROECONOMIC FRAMEWORK

3.8 During implementation, the Government made important strides towards macroeconomic stability. There was robust economic growth, with 21 percent real GDP growth in 2009-2010, contributing to a five year average growth rate of 10 percent (see Annex B). A debt management system supported quarterly debt reporting, and the debt-to-GDP ratio was reduced from 12 percent to 6 percent in 2009/2010, meeting the enhanced Highly Indebted Poor Countries (HIPC) benchmark. The capacity of Afghan customs and

revenue authorities improved, with an increase in revenue collection to 11 percent of GDP in 2010/11, up from 8 percent in 2008/9 (though still covering only about two-thirds of central government operating expenses, and less than 20 percent of public spending). There was also progress on improved functioning of treasury and budgeting systems, supported by the AFMIS that had been rolled out to all provinces and line ministries. However, daunting challenges remain. A run on the Kabul Bank in early September, 2010 was driven by concerns over alleged abuses by shareholders and top management, leading to a loss of about half of its US$1.3 billion deposits, and threatening the stability of the financial system. In addition to this immediate problem, a long standing issue was that Afghanistan's illicit sector amounted to one third to one half of GDP, including corruption and trafficking in narcotics. Security issues and donor dependence also raise uncertainties for the future (IMF, 2011).

IMPLEMENTATION OF MONITORING AND EVALUATION

3.9 Data were collected by the Ministry of Finance and other ministries as provided for in the program design. The Bank team provided frank and comprehensive reports on all key indicators, although in some cases it was not clear what evidence was required to declare a target as met.

Achievement of the Objectives

IMPROVE FISCAL POLICY AND PLANNING AND PUBLIC FINANCIAL MANAGEMENT

3.10 **Substantial.** The prior actions included critical parts of the results chain, including submission to Parliament of a medium-term expenditure framework, reorganization of the Budget Department, and enactment of key amendments to the 2008 Procurement Law. This law, along with the Public Financial and Expenditure Management Law previously approved under PSIB1, compare favorably with similar legislation in other countries, and reflect a degree of customization to country circumstances. Planned outputs were all achieved, including timely budget planning, submission to Parliament, and implementation; and improved compliance with procurement processes and fiduciary standards. Afghanistan now has achieved the outcome of a relatively strong public financial management framework, impressive revenue growth and greater assurance that funds provided through the budget are used effectively through monthly financial statements covering central government, published within 25 days of months end since 2008, and audited annual appropriation statements of the Government submitted to Parliament within six months of the end of the fiscal year since 2006. The Open Budget Index score for Afghanistan increased from 8 percent to 21 percent between 2008 and 2010, and continued improving to 59 percent in 2012 (International Budget Partnership, 2012). The progress made in the budgeting and execution of expenditure going through the government's financial management system is an achievement, which can in part be credited to the four operations, other Bank operations, and analytic and advisory services (World Bank, 2010, 2011c).

3.11 While the procurement law provides for a complaints mechanism, very few complaints are being filed. More than 90 percent of Bank managed procurement transactions turn around within the service standard, despite weak capacity in many line ministries for processing procurement, leading to some interruptions and delays in contract implementation

in part due to security issues. The field mission found that by September 2011, three ministries (Ministry of Education, Ministry of Agriculture, Irrigation, and Livestock and Ministry of Public Health) representing 20 percent of civilian expenditure had been certified to do stand-alone procurement.

3.12 Achievement of planned fiscal management targets supported by the grant is given in Table 4.

Table 4: Fiscal Policy, Planning, and Public Financial Management targets supported by the Operation

Most of planned targets achieved	Regular monthly meetings of the Ministry of Finance- Independent Administrative Reform and Civil Service Commission working group on fiscal implications of the pay and grading reform, timely submission of the 2010/11[a] budget to Parliament, report on strategic budget framework prepared and approved by Cabinet, standard bidding documents completed and disseminated for health sector goods and non-consultancy services, internal audit reports on compliance with the Afghanistan National Development Strategy circular for 2009/10, and a report from the Independent Monitoring Agent that ARTF salary and non-salary eligibility ratios were 89.1 and 60.4 percent respectively
Some targets partially achieved	Budget implementation as a percentage of budget (operating budget met the target of 90 percent or above; but development budget execution was 39 percent, below the target of 60 percent or above).[b] A procurement manual was prepared but not published, and standard bidding documents for large works, goods, works and consultant services completed in draft and awaiting the Bank's comments. While the ARTF eligibility target was met, compliance decreased over the period 2007-2011, along with the development budget execution ratio. Reasons include volatility and lack of predictability in donor financing, unrealistic budget formulation by line ministries, limited capacity within line ministries in planning, financial management, procurement, and project management expertise, the unnecessary and ill-timed attempt to introduce program budgeting and deliberate disempowerment of Parliament.
Some basic weaknesses have persisted in expenditure programming and budget preparation and approval	Although not detracting from the project's achievement of its objectives, remaining issues in the sector include Ministry of Finance dominance of the resource allocation process; overly optimistic plans and poor short-term forecasts; completion of the medium-term expenditure framework after the draft annual budget; lack of communications between a disempowered parliament and a centralizing executive; lack of intra-governmental coordination and consultation; and grave weaknesses in sub-national expenditure management.[c]

a. The Afghan Solar Year 1389 was from 21 March, 2010 to 20 March, 2011. The budget and other official documents use this calendar.
b. IEG's Country Program Evaluation examines how, despite the constructive efforts supported by the DPG, the development budget execution shortfall stemmed in part from a program budgeting initiative that had been introduced in 2008 as part of an IMF program, without needed improvements to the Chart of Accounts (World Bank 2012). This was scaled back to "simplified" program budgeting which, as elaborated in the Ministry of Finance's 2010 public financial management roadmap, evidently means that ministries should be aware that they have certain programs, and that they need to request and allocate resources so that simple performance targets can be achieved.
c. These are variously highlighted in the Ministry of Finance's own "Roadmap" of 14 July 2010 and the Bank Public Expenditure Review, which in addition raised the fundamental issue of precarious sustainability.
Source: World Bank, 2009e.

STRENGTHEN PUBLIC ADMINISTRATION REFORM AND SUB-NATIONAL ADMINISTRATION

3.13 **Modest.** The administrative actions supported contributed to outcomes achieved of maintaining the size of civil service, increasing numbers getting enhanced pay, and

improving pension regulations. Critical prior actions included gazetting of a new civil servant law with new pay and grading scale, and an increase in direct bank deposits of salary payments from 50,801 civil servants at the end of March, 2008 to at least 95,000 by the end of March, 2009 (by early 2011 over 290,000). There was also a report issued by the Ministry of Finance on sub-national financing reform. All of the human resource management targets were achieved or exceeded. Fifteen ministries were regraded with Cabinet approval, compared with a target of 10 ministries. The size of the civil service was reasonable according to payroll, and pension regulations were approved by Cabinet, both as targeted. These advances also contributed to favorable and improving opinion ratings on public administration and government performance[9]. Citizens with a great deal or fair amount of confidence in public administration increased from 55 percent in 2008 to 62 percent in 2011, and those who feel government is doing a very good or somewhat good job in carrying out its responsibilities from 67 percent to 73 percent over the same period. Both ratings worsened from 2007 (61 percent and 80 percent respectively) presumably due to the deteriorating security situation, but the recovery since 2008 is statistically significant.

3.14 However, under the sub-objective -- strengthening sub-national fiscal functions -- preparing a draft strategic sub-national financing framework was not completed. A key challenge in achieving this is that the Ministry of Finance needed to collaborate with the Independent Directorate of Local Government on the draft. The Directorate completed a Sub-national Governance Policy that was endorsed by Cabinet, but had not prepared it in consultation with Ministry of Finance as required. The Ministry considers this to be a draft framework. However, the Ministry is unwilling to support significant reform of vertical budget authority due to concerns of overburdening ministries, and of constraints at the sub-national level.

3.15 The Bank's approach to public administration reform in this development policy grant, like in other Bank operations, used a mix of incentives to attract essential skills to key positions on a short-term basis ("asymmetric approach"). Going beyond the issue of dependence on foreign technical assistance, a variety of incentive schemes were put in place to motivate key Afghan civil servants and other contracted Afghan specialists, including contract pay rates up to eleven times the highest rate for civil servants (even after pay and grading reform discussed in the next section). This is politically and financially unsustainable without donor financing. These relatively well-paid staff, often referred to as the "second civil service, are unevenly distributed across ministries and departments, with particularly large dependency in the Ministry of Health (about 18,000 contract staff in addition to 14,400 civil servants) and Ministry of Rural Reconstruction and Development (about 6,100 contract staff in addition to 2,900 civil servants). Among the relatively less dependent entities is the Ministry of Finance, which has 342 consultants, or about 5 percent of the total 7,100 civil servants, of which about 5,000 have gone through the pay and grading exercise. However, Table 5 indicates that within the Ministry of Finance, the Policy and Budget Departments are much more highly dependent on contracted staff, while other Departments are less so. In many cases where contracted staff are carrying out critical functions, these would be difficult to turn over to civil servants at this time. In other line

[9] Asia Foundation, 2011. These results have a statistical sampling error of +/-4.1 percent at a 95 percent confidence level. However, one must interpret these results with an understanding of the challenge in getting citizens to express honest opinions in this difficult context.

ministries and sub-national entities without the same access to such resources, performance is much weaker.

3.16 To sum up, much of the capacity built up in the Afghan government consists of an estimated 17,000 consultants and civil servants paid on varying, relatively high scales by donors and non-governmental organizations, with only rudimentary plans to reduce numbers of consultants and to hand over tasks to Afghan civil servants on normal pay scales.[10] The different schemes are outlined in World Bank, 2009a. The recently approved Capacity Development for Results Project (World Bank 2011) is the latest attempt to address this area.

3.17 These skilled personnel have helped adopt many of the structures, processes and systems supported by the four operations, including a Civil Service Law (approved in 2005, modified in 2008 with a new pay and grading scale) and accompanying regulations; institutional mechanisms for administrative reform oversight; basic human resources monitoring; reducing the number of ministries from 34 to 26, and the regrading of 15 ministries; incentives for scarce skills in the civil service through the Priority Reform and Restructuring and other mechanisms; institutional structures for administrative and reform oversight; pension regulations adopted by the Cabinet; and a seven-year action plan, led by the Central Statistical Organization, and bringing all donors together under a common approach to work towards a good statistical system that can help monitor the progress and impact of development interventions on poverty and other social outcomes. The size and growth of the civilian civil service is reasonable (up from 327,000 in 2004 to approximately 355,000 in 2011).[11] The revamped civil service had been a facilitating factor in improved public financial management and revenue collection, improved access to health care, and increased primary school enrollments.

Table 5: Dependency on the "Second Civil Service" in the Ministry of Finance, selected units (2012)

Unit	Civil Servant	Afghan Consultants	Foreign Consultants	Dependency Ratio[a]
Policy	17	3	18	1.24
Budget	81	69	12	1.00
Customs	194	59	11	0.36
Internal Revenues	150	12	4	0.11
Revenues	642	40	18	0.09
Treasury	503	32	4	0.07
Admin	164	2	0	0.01

a. Number of consultants/Number of civil servants.
Source: IEG analysis

[10] Based on a survey carried out in April, 2011, including 12,000 Afghans paid by major donors (mostly paid directly by donors and estimated to cost the equivalent of about 40 percent of total payroll costs for the civil service) 2,000 international technical assistance, and an estimated 3000 Afghans paid by small, bilateral donors. This number is estimated to be somewhat higher than four years ago, although there is no previous survey data that can confirm this. There is an unknown, but assumed larger number of Afghans and consultants paid by the International Security Assistance Force (ISAF) and related military units for civilian work.

[11] World Bank, 2012. Depending on the population estimate used, the ratio of civil servants per 100 population in Afghanistan is about 1.3 (based on population of 26 million) compared to Pakistan's 1.97, Sri Lanka's 3.04, Bangladesh's 0.62 , Nepal's 1.23 and India's 1.25.

3.18 There are some cases where a recommended policy was adopted (for example, policy on subnational administration endorsed by Cabinet in 2010), but that implementation is hampered by the lack of adequate consultation between the lead agency (Independent Directorate of Local Government) and a key partner (Ministry of Finance), hampering implementation. There are still other cases where despite Bank support for taking agreed actions in combating corruption, there is minimal high level support for addressing the worsening of public integrity, the interpenetration of private-public interests and of formal-illegal activities, collusion, and bribery that continues in the system as a whole.

3.19 While there are numerous achievements of laws, regulations, structures, and processes recommended and adopted, capacity in most line ministries to operate according to these formal rules remains weak and heavily reliant upon asymmetric pay arrangements and external support, both in management and in sector specific professional skills. In addition, much of the work of government continues to be carried out based on informal practices, particularly at the sub-national level where governors, commanders, and warlords can rule based on informal authority and on financial and military strength. Foreign partners have agreed to a 2014 military withdrawal, and at the December 2011 Bonn Conference promised to shift from direct support to capacity building, and to dissolve any structures duplicating government functions, along with unspecified financial support for the following ten years. The high level of donor assistance ($15.7 billion, about the same as GDP [World Bank, 2012]) will not be sustained. It is highly unlikely that future support will be up to the $10 billion per annum requirement estimated by the Afghan Government. Yet there is no credible narrative on how Afghan politicians and civil servants would be able and willing to sustain public administrative reform achievements that have been made without this level of support.

3.20 Building a modern civil service faces several additional challenges. The Bank's and other partners' understanding of the inherited Afghan civil service was based on highly innovative diagnostic work. While there were not many written regulations and procedures, there were rules that officials used as the basis for their work; the Bank's specialists cataloged these based on interviews with serving officials. For example, they built on the Afghan system of establishment control, the *Tashkeel*. This diagnostic also had a good analysis of *de jure* vs *de facto* governance at the provincial level, with regional warlords or local commanders setting policy. However, subsequent reports and operations did not do enough to analyze the inconsistencies between realities such as this on the ground, and the reforms being advocated such as competitive, merit based recruitment and promotion of officers, and selection for incentive schemes. While the intention was to build on existing systems, the actions suggest that Western concepts of good practice have been introduced from other settings, on the assumption that they would be a good fit for Afghanistan.

INCREASE TRANSPARENCY AND ACCOUNTABILITY IN THE MANAGEMENT OF PUBLIC FINANCES

3.21 **Modest.** The accountability actions contributed to delivering the outputs of becoming an Extractive Industries Transparency Initiative candidate country (meaning that it met the five sign-up conditions), and more effective controls on Government financial processes. Key prior actions included Cabinet commitment to the EITI, and establishing a Fraud Investigation Unit at the Ministry of Finance's Internal Audit Department with a qualified

auditor and training program, and an Information Technology Audit Section. All output targets were achieved or exceeded. The Minister of Finance was appointed as champion, along with a multi-stakeholder committee, a work plan and budget were approved and submitted, and a baseline inventory of companies operating in the extractive industries was published on the Ministry of Finance's website. Concerning the Internal Audit Department, the 2008/9 internal audit plan of the Ministry includes reviews by the two new units. An audit of the AFMIS was initiated, supported by the operation, to validate that accounting and financial management reporting had become more accurate and timely with the adoption of the AFMIS, now connecting all 54 line ministries and agencies and all 34 provinces.

3.22 However, in rating this objective, it must be emphasized that these actions, while commendable, are only initial steps that by themselves will have little impact on reducing patterns of grand corruption and rent seizing that are widely reported.[12] Systemic corruption and interpenetration of public and private interests have not been alleviated, and according to Transparency International, Afghanistan is perceived as the most corrupt country on the planet[13]. The Government was recently forced to absorb losses of $825 million misappropriated by politically well-connected borrowers from Kabul Bank, which administered salaries for Afghanistan's soldiers, police, and civil servants. In the cases of Customs and Revenue, there is credible evidence that some key positions are bought by Afghan civil servants because of their rent-seeking potential: for example 20 percent or more of provincial customs positions —purchased because of the opportunities for rent-seeking.

Ratings

OUTCOME

3.23 **Moderately Satisfactory.** IEG finds that the objectives and design were substantially relevant for the Government and Bank strategies. There is a clear causal chain linking support from the operation, in concert with parallel support from the Bank and other development partners, and the intended outcomes. The macroeconomic framework was adequately maintained, and there was substantial achievement of the fiscal management objective, including timely budget planning, submission to Parliament, and implementation. Improved procurement processes and fiduciary standards were complied with. The administrative actions contributed to maintaining the size of civil service, increasing numbers getting enhanced pay, and improved pension regulations. The accountability actions contributed to EITI candidate status, and more effective controls on Government financial processes.

3.24 However, there were moderate shortcomings in the achievement of the objectives: the budget execution rate is below target, the process of amending the procurement law is not finished, the eligibility ratio of the ARTF is trending downward over the past three years, the

[12] Afghans paid an estimated US$2.5 billion in bribes less than $1000 each in 2010 (20 percent of GDP). One out of every two Afghans is thought to have to pay at least one bribe to a public official per year, with the request coming from the official more than 56 percent of the time (UNODC, 2010).

[13] Tied with North Korea and Somalia (Transparency International, 2012).

sub-national financing reform was not completed, the administrative reforms are dependent on a second civil service that is not sustainable.

3.25 Developments in Afghanistan have been determined largely by other entities than the Bank, with a priority on security and political objectives rather than long-term development and capacity-building, and with resources vastly greater than those the Bank could provide. Given the constraints, the progress made in the execution of expenditures financed by government resources and the portion of donor resources going through the government's public financial management system is an achievement, which can in part to be attributed to this and other operations, analytic work, and support from other development partners.

RISK TO DEVELOPMENT OUTCOME

3.26 **High.** The risks detailed above for the PSIB series also apply to this operation, including reliance on a second civil service, fiscal and political economy constraints as foreign forces leave, and the dominance of security forces in the public payroll and operational budget.

3.27 The Program Document acknowledged that fiduciary risks would be significant due to weak governmental capacity and the prevalence of corruption. To mitigate the high risk of corruption during implementation, the Bank carried out a series of Vulnerabilities in Corruption Assessments in customs, revenue, financial management, and appointments, and worked with the concerned agencies to develop action plans to address them. For example, the PEFA assessment confirmed that the strong centrally managed and computerized payments mechanism helped to mitigate the risk from financial leakages and embezzlement in PFM system, although data were not yet collected on resources utilized for service delivery, or on commitments. There was continuous monitoring and renewal of system components along with efforts to strengthen and professionalize public sector accountants. Procurement risks were mitigated by the central oversight by the Afghanistan Reconstruction and Development Services, by oversight of the ARTF Monitoring Agent, and by the use of international agents for large procurements.

3.28 There were also risks stemming from weaknesses that persisted in expenditure programming and budget preparation and approval. The initially correct emphasis on cash management, payroll, record-keeping and similar urgent issues failed to grow beyond the technical infrastructure of PFM to effectively impact medium-term expenditure programming, budget preparation, and other upstream aspects of PFM, a process that may take 20-30 years to be fully realized (World Bank, 2010). Since 2007, budget formulation and execution have been hampered by volatility in donor financing, and limited capacity within line ministries. Partly for these reasons, the development budget execution rate fell in 2009/10 to 40 percent from 54 percent in 2006/7. And the underlying problems of systemic corruption and interpenetration of public and private interests were not alleviated (Transparency International, 2012). Earmarking of funds through a system of preferencing by donors remained a somewhat contentious issue. The Afghanistan Reconstruction Trust Fund permitted donors to express a preference for applying up to 50 percent of their contributions toward support for individual programs; however, it did not permit geographic preferencing. In recent years, some donors have been increasing the share of preferenced funds for certain

programs due, in part at least, to direction from their legislatures and concerns over weak government capacity and corruption. However, other development partners have expressed confidence in the Reconstruction Trust Fund by eliminating preferencing. The United Kingdom and Norway, who contribute 23 percent of the fund's current financing, have entirely eliminated preferencing. Overall, 40 percent of financing from the Reconstruction Trust Fund is currently preferenced.

3.29 All of these challenges are heightened by the faster increases in core expenditures (particularly those related to security) relative to domestic revenues, and the threat to fiscal and macroeconomic stability. This experience, along with the subsequent imbalance toward the fiduciary aspects, demonstrates the costs and distortions caused by handling public expenditure management separately from fiduciary safeguards--financial management strictu senso (i.e., accounting, financial control and reporting) and procurement.

3.30 Yet remaining challenges include large numbers of donor-financed consultants and civil servants receiving significant top ups carrying out key tasks, inability of government to recruit and retain sufficient, qualified staff at normal and Priority Reform and Restructuring pay levels, weak leadership of reform effort, strong resistance to reforms in key agencies such as the Afghan National Police, where factional networks vie for remunerative posts, and systemic weaknesses and unclear service delivery responsibilities at the sub-national level. The Priority Reform and Restructuring also reportedly face difficulties, as many of the approved positions are not merit-based, but rather selected to address political considerations. And most important, the security situation is perilous and has gotten worse in recent years. In the transition to the scheduled pullout of foreign forces in 2014 and beyond, there are high risks to sustaining the reforms achieved. Many sub-national jurisdictions are ruled by governors, commanders, and warlords, with a combination of de jure and de facto authority based on financial and military strength, as well as personal, factional, and historical loyalties. The systems put in place with Bank support, while technically more efficient than the patronage based systems they are meant to replace, may not be resilient enough to withstand expected stresses over the next few years. As foreign forces leave, the regime may find it necessary to roll back the administrative improvements achieved to date, in order to make greater use of public resources to pay off elite supporters willing to oppose militant groups.

3.31 Another worrying sign is that the numbers of 2010-11 graduates from Kabul University have declined in a number of vital skill areas (Table 6). The reasons could include disruption of studies due to deteriorating security, and increased opportunities for study in local private universities and abroad. Better understanding these trends and how to mitigate or take advantage of them is crucial to a transition plan for sustainable government capacity.

Table 6: Graduates of Kabul University, by discipline

	2008-2009	2009-2010	2010-2011
Agriculture	927	1202	1057
Veterinary	94	50	94
Economy	525	461	458
Management and Trade	45	39	--
Engineering	705	512	501
Science	485	690	566
Geology	195	132	111
Geology and mine	166	144	60
Chemical Technology	26	54	82
General medical faculty	510	351	240
Medical for children	109	86	59
Medical Treatment	304	248	156
Stomatology	51	46	80
Nursing	--	--	30
Pharmacy	129	85	53

Source: World Bank, 2012

3.32 Another risk to sustainability of the systems and processes put in place stems from the way complementary technical assistance has been delivered, combined with the incentives offered to key staff. The initial technical assistance operations focused on providing urgent, operational support to put in place basic financial management and procurement capacity to underpin the reconstruction effort. A design shortcoming of some technical assistance projects (for example, Emergency Public Administration, Strengthening Financial Capacity) is that operational support and capacity building support were combined, with consultant terms of reference to do both. Due to low skill levels of most civil servants and the urgent requirements of ensuring basic government performance, the objectives of institutional development and knowledge transfer to civil servants, these objectives were relegated to the background in lieu of providing operational support.

3.33 There are also many risks such as weak leadership of reform effort, strong resistance to reforms in key agencies such as Afghan National Police where factional networks vie for remunerative posts, systemic weaknesses and unclear service delivery responsibilities at the sub-national level. The Priority Reform and Restructuring also reportedly faces difficulties, as many of the approved positions are not merit based, but rather selected to address political considerations. The security situation is perilous, and has gotten worse in recent years. The high level of corruption raises the reputational risk to honest civil servants.

3.34 In the transition to the scheduled pullout of foreign forces in 2014 and beyond, these factors point to multiple risks to sustaining the progress achieved. There is a financing risk

because of the heavy reliance on consultants and staff with enhanced pay only affordable if donor funds are sustained. There is the social risk that civil servants not receiving enhanced pay will be reluctant to support efforts led by their well paid colleagues. There is also the challenge of differential pay between Kabul and provincial staff, with delays and uncertainty in payment facing the latter, due in part to lack of consistency between *Tashkeels* and *Takhsis* (budget allotments). While in theory a highly centralized system, with 40 percent of civil servants based in Kabul, in practice many sub-national jurisdictions are ruled by governors, commanders and warlords with a combination of *de jure* and *de facto* authority based on financial and military strength, as well as personal, factional, and historical loyalties. There is currently no agreed plan to address possible resentment arising among these different categories of staff. This in turn leads to a key political risk, discussed earlier, that as foreign forces leave, the regime may find it necessary to roll back the administrative improvements achieved to date, in order to make greater use of public resources to pay off elite supporters willing to oppose militant groups.

BANK PERFORMANCE

Quality at entry

3.35 **Satisfactory.** The grant built on the lessons learned in previous operations by the Bank and other development partners, and was well aligned with the Government and Bank strategies. As analyzed in IEG's Country Program Evaluation, the Bank's role as Administrator of the ARTF allowed it to leverage substantial funds, facilitate coordination and a coherent approach among development partners, and put it in a strong position to engage in policy dialogue with the Government (IEG 2012). Some key design features are presented in Table 7.

Table 7: Development Policy Grant Design features

To ensure Government commitment	The program document shows evidence that the team considered who would gain and lose from the reforms (World Bank, 2009e: 33, Table 6). The most politically sensitive reforms -- submission to Parliament of a Medium-term expenditure framework, reorganization of the Budget Department, and establishment of an Internal Audit Department under the Ministry of Finance -- were all included as prior actions.
To facilitate effective implementation	Most expected actions were the responsibility of the Ministry of Finance, the Implementing Agency.
Builds on and contributes to a sustained record of achievement	40 percent increase in domestic revenues, and increase in core budget expenditures from 9 percent of GDP to 20 percent over the period 2003-2010.
To encourage donors to channel aid through country systems	External assistance to Afghanistan was 47 percent of GDP, covering 90 percent of the national budget, and yet most assistance bypassed country systems, thus undermining the government's legitimacy, and the usefulness of its budget as a tool for ensuring national priorities. The operation supported targeted improvements in country systems, and showed confidence in these systems by channeling Bank-managed resources through them. On-budget assistance has a much higher economic impact than off-budget assistance (World Bank 2012).

Source: World Bank, 2009e.

3.36 There was a strong analytical foundation including two PEFA assessments, and other institutional and political analysis (see Box 1). The single tranche design and frontloading of politically difficult actions as prior actions helped to facilitate implementation in an exceptionally difficult context, while the focus on processes and outputs as targets helped ensure that achievement of intermediate outcomes was possible within the operation's short duration. The risk assessment in the Program Document and proposed mitigating measures were appropriate. M&E design, implementation and utilization was broadly successful, with minor shortcomings understandable in such a difficult context.

Quality of Supervision

3.37 **Satisfactory.** A Highly Indebted Poor Countries Completion Point Mission two months after project effectiveness also covered DPG progress, as recorded in the back to office report, and completed a progress indicators matrix (as of October 2009) that helped identify gaps and raised with authorities the need for action. An ISR (March 2010) gave further indication of gaps and the need for action. Additional supervision was provided by an in-country Senior Economist, and through regular video-conferencing. There were cases in which it wasn't clear from the policy matrix what evidence was required to declare a process target indicator as met, and what the respective roles of the Bank and Government should be. The Bank team worked closely with the Government at each stage to clarify matters, and reach a mutual understanding. The involvement of a Lead Financial Management Specialist based in Kabul since 2004 as co-Task-team leader throughout this operation helped to ensure effective supervision. Based on the above, the Bank's overall performance rating is **satisfactory**.

Box 1. Analytical work

A strength of the underlying analytical work is that after 2007, the Bank adopted an increasingly candid and realistic tone and with the 2008 consultants' procurement update and the 2010 Public Expenditure Review it emphasized the core problems and the discouraging developments in overall public resource efficiency and sustainability; the high and mounting corruption; very partial budget coverage; still uncontrolled wage/pension bill after all the years of effort; weak budget formulation. Warnings about sustainability were sounded in some of the earlier analytical studies, but without much success. The more recent analytical products (for example, World Bank 2010) give a more accurate representation of current PFM reality than the PEFA assessments, which were focused on the visible and small portion of public expenditure incorporated in the formal government budget and were unable to fully consider the implications of the large off-budget donor funding or of the ever-increasing corruption.

The long-term nature of the institution building challenges is also evident in the analytical work. There is a time warp feel to some of this work on PFM in Afghanistan, with problems already evident at end-2001 and early 2002 flagged towards the end of the period as if they had just surfaced, and some recommendations implicitly demonstrating the lack of progress in critical areas of PFM—primarily, capacity. For example, after the significant improvements reportedly achieved in procurement capacity in the line ministries in the early years, and eight years after the stated intention to develop a training framework ("*Managing Public Finances…*", vol II, p.56), it is not encouraging to read in the 2010 Public Expenditure Review that: "To *begin to address* the [procurement] weaknesses, the Procurement Policy Unit *plans to initiate* procurement capacity assessments of 7 spending ministries" (p.15; italics inserted); nor a recommendation that "capacity reviews [of selected ministries/functions] *should be started* in 2011/12…" (World Bank 2010, italics inserted).

Source: IEG 2012.

BORROWER PERFORMANCE

Government Performance

3.38 **Moderately Satisfactory.** Government was strongly committed to the design and implementation of the operation, despite the extremely challenging context including constant risk of violence, and the distractions of an election year. A moderate shortcoming discussed above was the lack of engagement by the Budget Department, and the Ministry of Finance as a whole, on the formulation of the Subnational Governance Policy by the Independent Directorate of Local Governance.

Implementing Agency Performance

3.39 **Satisfactory.** The Ministry of Finance and its focal point, the Deputy Minister, gave strong support to design, implementation and monitoring of the operation. The Minister and his advisor were directly involved at various stages. The Deputy Minister himself was appointed champion for the Extractive Industry Transparency Initiative, fulfilling one of the DPG's targets. An important success factor is that most of the targets could be achieved by Ministry, its Fiscal Policy Unit, Budget Department, and Internal Audit Department. However, when needed, outside units made important contributions in a timely manner, including the Civil Service Commission and line ministries involved in discussions on development budget execution, and ARTF eligibility ratio. Based on the above, IEG rates borrower performance as **moderately satisfactory**.

MONITORING AND EVALUATION

Design

3.40 There were time-bound, measurable indicators in prior actions and targets linked to objectives. Unlike the PSIB Series, which included broad outcome indicators such as revenue-to-GDP ratio, the DPG's indicators measured focused processes (for example, Strategy Budget Framework for 2010/11 prepared by December) and outputs (for example, 2009/10 ARTF recurrent cost window reimbursement eligibility ratio above 85 percent and 60 percent for wages and other expenses respectively), along with intermediate outcomes such as increases in civil servants paid by the Verified Payment Plan system. Baselines were given for each output, process and intermediate outcome target. As analyzed in the ICR, indicators for ARTF eligibility ratio and budget execution were not good measures of progress because they were driven by complex processes going beyond what this operation could support. The objectives to strengthen public administration reform and sub-national administration could have been treated as two separate objectives to better facilitate M&E. IEG believes that the main issue here is not one of M&E, but rather lack of commitment by the Ministry of Finance to the sub-objective of strengthening sub-national fiscal functions.

Implementation

3.41 An ISR prepared mid-way through the operation, and the ICR itself, were both frank and comprehensive in reporting on all key indicators. M&E data were collected by the Ministry of Finance and other authorities, with arrangements clearly specified in the Program Document, Annex 2. There were cases where it wasn't clear what evidence was required to declare a target as met.

3.42 The ISR clearly indicated strengths and weaknesses in performance, including concerns over the weak performance of two indicators, and proposed remedial actions for management attention. M&E focused on processes and outputs, rather than outcomes, since this was a short term operation, in a severely difficult context, and one of many supported by the Bank and other development partners in this area. While some measurement of outcome would have been useful, IEG views the focus on processes and outputs as understandable given the circumstances.

Use of the data.

3.43 Utilization was constrained by some indicators that were not good measures of progress, and other indicators that were ambiguous and difficult to measure when a benchmark had been met. These challenges were heightened by weak Governmental M&E capacity.

3.44 Taking all of this into account, IEG rates M&E quality as **modest.**

4. Lessons

Although Afghanistan's history and challenges are somewhat unusual, given the enormous impact of international actors since 1979 and the high profile of the international terrorist threat over the last decade, the experience over the period of these operations offers a few important lessons relevant to other fragile and conflict-affected states:

- **Development Policy Operations can achieve important public administration and financial management reforms in high-risk environments with strong government ownership and flexible implementation**. Bank investment lending, analytic and advisory services, and Bank-managed multi-donor trust funds, together with close coordination with the initiatives of other donors, can substantially increase the probability of success of development policy operations. Continuity, experience, and quality of Bank staff are necessary conditions for program effectiveness; with location in-country an added advantage.
- **Emergency consultant support in the short- and medium-term can usefully supplement the skill base in Governments where progress in institution and capacity building is bound to be a slow and time-consuming process**. These skilled personnel can help adopt structures, processes, systems, and regulations to enable reforms in, *inter alia*, pay and grading, administrative reform oversight, human resources monitoring, tax administration, financial management, procurement,

and audit. However, ensuring the transition to a more normal administrative structure is crucial for sustainability.

- **It is crucial to empower senior officials from Government to determine and direct administrative reform, public financial management and other institutional processes that make sense locally and that can promote broad-based consensus inclusive of key political groups, while being sufficiently robust to deal with rapid social and economic change.** This PPAR has demonstrated that when such officials are supported by extensive analytical work and parallel technical assistance operations, development policy operations can emerge that succeed in facilitating limited but important progress taking place in a volatile setting.

World Bank (2011a) gives examples of some societies and states that have succeeded in managing these stresses without persistent recourse to violence, while others have not -- and finds the essential difference to be the ability of a society's institutions to mediate conflict. It is not yet clear whether Afghanistan is on track to succeed. As in other settings, it will take a generation or more of persistent effort to turn ineffective institutions into 'legitimate' entities which are capable, inclusive and accountable.

This will be challenging. Creating local and national institutions capable of resolving conflicts peacefully and providing the stability and predictability needed for sustained economic growth are deeply affected by commercial, diplomatic, and security decisions taken beyond the country concerned. Development policy lending can have substantial success in meeting their objectives by walking a thin line between moving towards international standards of public administration, financial management, procurement, and accountability on the one hand, and maintaining local ownership and local face to the reforms on the other.

References

Afghan Authority for the Coordination of Assistance, 2002. *The National Development Framework.* Kabul.

Asia Foundation, 2011. *Afghanistan in 2011—A Survey of the Afghan People*. Kabul: Asia Foundation.

Collier, Paul. 2009. *War, Guns and Votes.* NY: HarperCollins.

International Budget Partnership, 2012. *Open Budget Survey 2012*. Washington, DC: International Budget Partnership

Independent Evaluation Group. 2012. *Afghanistan Country Program Evaluation 2002-2011*. Washington DC: World Bank.

International Monetary Fund (IMF), 2011. *Islamic Republic of Afghanistan: 2011 Article IV Consultation and Request for a Three- Year Arrangement Under the Extended Credit Facility—Staff Report.* Washington, DC: IMF.

———. 2008. *Islamic Republic of Afghanistan: 2007 Article IV Consultation and Third Review under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criterion—Staff Report.* Washington, DC: IMF.

_____. 2006. *Islamic Republic of Afghanistan: 2005 Article IV Consultation and Sixth Review Under the Staff Monitored Program—Staff Report; Staff Statement.* Washington, DC: IMF.

Islamic Republic of Afghanistan, 2010. Report on Analysis of Donor-funded Remuneration for Individuals Working in the Government. Kabul.

Islamic Republic of Afghanistan, Asian Development Bank, United Nations Assistance Mission to Afghanistan, United Nations Development Program, The World Bank. 2004. *Securing Afghanistan's Future: Accomplishments and the Strategic Path Forward*. A Government / International Agency Report, March 17.

Norwegian Agency for Development Cooperation (NORAD). *Evaluation of Norwegian Development Cooperation with Afghanistan 2001-2011*. Oslo: NORAD

PEFA Secretariat, 2010. *Monitoring Report on Repeat Assessments*. Washington, DC: World Bank.

Transparency International, 2012. *Corruption Perception Index 2012*. Berlin: Transparency International.

United Nations Office of Drugs and Crime (UNODC), 2010. *Corruption in Afghanistan, Bribery as Reported by the Victims.* January. Vienna: UNODC.

World Bank. 2012. *Afghanistan in Transition: Looking Beyond 2014*. Volume 1: Overview. Washington, DC: World Bank.

_____.2011a. *World Development Report 2011: Conflict, Security and Development*. Washington, DC: World Bank.

_____. 2011b. *Capacity building for results facility. Emergency Project Paper.* Washington, DC: World Bank.

_____. 2011c. *Project Paper on a Proposed ARTF Grant in the amount of US$ 73 million to the Islamic Republic of Afghanistan for a Second Public Financial Management Reform Project.* Washington, DC: World Bank.

_____. 2011d. *Implementation Completion and Results Report on Grants IDA – H1940 AF and IDA – H2950 AF in the Total Amount of SDR 108.2 Million (US$160 million equivalent) to the Islamic Republic of Afghanistan for the Programatic Support for Institution Building II and Programmatic Support for Institution Building III.* Washington, DC: World Bank.

_____. 2011e. *Implementation Completion and Results Report (IDA-H5010) on a Development Policy Grant in the Amount of US$35 million to the Islamic Republic of Afghanistan for the Strengthening Institutions Development Policy Grant.* Washington, DC: World Bank.

_____.2010. *Public Expenditure Review 2010 Second Generation of Public Expenditure Reforms.* Washington, DC: World Bank.

_____. 2009a. *Interim Strategy Note for the Islamic Republic of Afghanistan for the period FY09-FY11.* Washington, DC: World Bank.

_____.2009b. "Scaling up Technical Assistance and Capacity Development in Afghanistan". Draft Report.

_____.2009c. "International Merit Based Pay Initiatives Evaluation, Kingdom of Cambodia". Draft report.

_____.2009d. *Fighting Corruption in Afghanistan: Summaries of Vulnerabilities to Corruption Assessments.* Washington, DC: World Bank.

_____. 2009e. *Program Document for a Proposed Grant in the Amount of SDR 23.5 Million (US$35 million equivalent) to Islamic Republic of Afghanistan for a Strengthening Institutions Development Policy Grant.* Washington, DC: World Bank.

_____.2008a. *Afghanistan Public Financial Management Performance Assessment.* Washington, DC: World Bank.

_____.2008b. *Afghanistan Building an Effective State Priorities for Public Administration Reform*. Washington, DC: World Bank.

_____.2008c. *Inter-governmental Fiscal Relations and Sub-national Expenditures.* Washington, DC: World Bank.

_____.2007. *Interim Strategy Note for the Islamic Republic of Afghanistan for the period FY07-FY08.* Washington, DC: World Bank.

_____.2007a. *Afghanistan: Public Sector Accounting and Auditing Financial Management : South Asia Region-- A Comparison to International Standards.* Washington, DC: World Bank.

_____.2007b. *E-Procurement: Readiness Report and Implementation Plan for Afghanistan.* Washington, DC: World Bank

_____.2006. *Service Delivery and Governance at the Sub-National Level in Afghanistan.* Washington, DC: World Bank.

_____.2005. *Afghanistan Managing Public Finances for Development.* Washington, DC: World Bank.

_____.2004a. *Reforming Fiscal and Economic Management in Afghanistan.* Washington, DC: World Bank.

_____.2004b. *Subnational Administration in Afghanistan.* Washington, DC: World Bank.

_____. 2004c. *Program Document for a Proposed Credit in the Amount of SDR 54.7 Million (US$80 million equivalent) to the Islamic Republic of Afghanistan for Programmatic Support for Institution Building. Report No. 28192-AF.* Washington, DC: World Bank.

_____.2003a. *Transitional Support Strategy Afghanistan.* Washington, DC: World Bank.

_____. 2003b. *Guide to Government in Afghanistan and Subnational Administration in Afghanistan: Assessment and Recommendations for Action.* Washington, DC: World Bank

_____. 2003c. *Afghanistan: Financial Sector Reforms*. Washington, DC: World Bank

_____.2002. *Transitional Support Strategy Afghanistan.* Washington, DC: World Bank.

Annex A. Basic Data Sheet

Programmatic Support for Institution Building I

(CREDIT NO. IDA-39630)

Key Project Data (amounts in US$ million)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	80	80	100
Loan amount	80	80	100
Cofinancing	--	--	--
Cancellation	--	--	--
Date of final disbursement: August 5, 2006			

Project Dates

	Original	*Actual*
Initiating memorandum	07/01/2002	03/23/2004
Negotiations	08/22/2002	06/29/2004
Board approval	09/19/2002	07/29/2004
Signing	08/04/2004	08/04/2004
Effectiveness	08/05/2004	08/05/2004
Closing date	03/20/2005	03/20/2005

Staff Inputs (staff cost)

	FY03	*FY04*	*FY05*	*FY06*	*FY07*	*Total*
Preparation - Lending	39.97	231.29	16.73	--	--	287.99
Appraisal	--	--	--	--	--	--
Negotiations	--	--	--	--	--	--
Supervision	--	--	51.73	10.75	--	62.48
Other	--	--	--	--	--	--
Total	39.97	231.29	68.46	10.75	--	350.47

Task Team Members

Names	Title	Unit
Lending		
Birgit Hansl (TTL)	Senior Economist	SASEP
Supervision		
William Byrd	Adviser	OPCFC
Deepal Fernando	Senior Procurement Specialist	SARPS
David C. Freese	Senior Finance Officer	CTRFC

Names	Title	Unit
Richard Spencer Hogg	Adviser	SASGP
Yoichiro Ishihara	Senior Economist	OPCAE
Ranjana Mukherjee	Senior Public Sector Specialist	SASGP
Sheila Braka Musiime	Sr Counsel	LEGOP
Hamish Antony David Nixon	Consultant	SASDU
Marco Scuriatti	Senior Operations Officer	AFCS1
Muhammad Shafiq	Program Assistant	SASEP
Paul Edwin Sisk	Lead Financial Management Specialist	SARFM
Oleksiy A. Sluchynsky	Senior Economist	SASSP
Michael C. Stanley	Lead Mining Specialist	SEGOM
Anne Tully	Senior Operations Officer	OPCFC

Source: World Bank 2011d.

Programmatic Support for Institution Building II

(CREDIT NO. IDA-H1940)

Key Project Data (amounts in US$ million)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	80.0	80.0	100
Loan amount	80.0	80.0	100
Cofinancing	--	--	--
Cancellation	--	--	--
Date of final disbursement: December 29, 2005			

Project Dates

	Original	*Actual*
Initiating memorandum	01/15/2005	09/19/2005
Negotiations	04/15/2005	10/26/2005
Board approval	05/26/2005	12/13/2005
Signing	12/15/2005	12/14/2005
Effectiveness	12/27/2005	12/27/2005
Closing date	09/30/2006	09/30/2006

ANNEX A

Staff Inputs (staff weeks)

	FY05	*FY06*	*FY07*	*Total*
Preparation- **Lending**	131.75	152.17	--	283.92
Appraisal	--	--	--	--
Negotiations	--	--	--	--
Supervision	--	59.18	74.11	133.29
Total	131.75	211.35	74.11	417.21

SOURCE: World Bank 2011d..

Task Team Members

Names	Title	Unit
Lending		
Stephane Guimbert	Senior Economist	EASPR
Sheila Braka Musiime	Counsel	LEGES
Supervision		
William Byrd	Adviser	SASEP
Julia M. Fraser	Sr Financial Analyst	SASDE
Shawkat M.Q. Hasan	Procurement Specialist	SARPS
Md. Reazul Islam	Sr Private Sector Development	SASFP
Syed A. Mahmood	Program Manager	CSABI
Samuel Munzele Maimbo	Sr Financial Sector Specialist	AFTFP
Serge Michailof	Consultant	SASEP
Muhammad Khalid Payenda	Research Analyst	SASEP
Paul Edwin Sisk	Sr Financial Management Specialist	SARFM
Nobuo Yoshida	Economist	SASEP

Source: World Bank 2011d

Programmatic Support for Institution Building III

(CREDIT NO. IDA-H2950)

Key Project Data (amounts in US$ million)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	80.0	80.0	100.0
Loan amount	80.0	80.0	100.0
Cofinancing	--	--	--
Cancellation	--	--	--
Date of final disbursement: August 27, 2007.			

Project Dates

	Original	*Actual*
Initiating memorandum	02/14/2007	02/08/2007
Negotiations	04/12/2007	04/04/2007
Board approval	05/29/2007	05/29/2007
Signing		n.a.
Effectiveness	07/11/2007	07/11/2007
Closing date	03/21/2008	03/21/2008

Staff Inputs (staff weeks)

	FY07	*FY08*	*Total*
Preparation	86.81	--	86.81
Appraisal	--	--	--
Negotiations	--	--	--
Supervision	--	103.19	103.19
Other	--	--	--
Total	86.81	103.18	190.00

SOURCE: World Bank 2011d.

Task Team Members

Names	Title	Unit
Lending		
Nigel Peter Coulson	Senior Public Sector Specialist	SASGP
Julia M. Fraser	Sr Financial Analyst	SASDE
Birgit Hansl	Economist	SASEP
Shawkat M.Q. Hasan	Procurement Specialist	SARPS
Jalpa Patel	Consultant	SASDU
Muhammad Khalid Payenda	Research Analyst	SASEP
Arlene D. Reyes	Program Assistant	GSDPR
Martin M. Serrano	Counsel	LEGES
Paul Edwin Sisk	Sr Financial Management Specialist	SARFM
Nobuo Yoshida	Economist	SASEP
Supervision		
William Byrd	Adviser	SASEP
Nigel Peter Coulson	Senior Public Sector Specialist	SASGP
Julia M. Fraser	Sr Financial Analyst	SASDE
Stephane Guimbert	Senior Economist	EASPR
Shawkat M.Q. Hasan	Procurement Specialist	SARPS
Kyoo-Won Oh	E T Consultant	SASFP

ANNEX A

Names	Title	Unit
Jalpa Patel	Consultant	SASDU
Muhammad Khalid Payenda	Research Analyst	SASEP
Arlene D. Reyes	Program Assistant	GSDPR
Martin M. Serrano	Counsel	LEGES
Paul Edwin Sisk	Sr Financial Management Specialist	SARFM
Nobuo Yoshida	Economist	SASEP

Source: World Bank 2011d.

Strengthening Institutions Development Policy Grant

(CREDIT NO. IDA H5010)

Key Project Data (amounts in US$ million)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	35	35	100
Loan amount	35	35	100
Cofinancing	--	--	--
Cancellation	--	--	--
Date of last disbursement: August 31, 2009.			

Project Dates

	Original	*Actual*
Initiating memorandum	12/08/2008	12/16/2008
Negotiations	20/05/2009	04/24/2009
Board approval	03/31/2009	06/04/2009
Signing	07/07/2009	07/07/2009
Effectiveness	08/24/2009	08/24/2009
Closing date	08/31/2010	08/31/2010

Staff Inputs (staff weeks)

	FY09	*FY10*	*FY11*	*Total*
Preparation	135.7	14.8	--	150.5
Appraisal	--	--	--	--
Negotiations	--	--	--	--
Supervision	--	--	--	--
Other[a]	--	--	38.2	38.2
Total	135.7	14.8	38.2	188.7

a.For the ICR.

Task Team Members

Names	Title	Unit
Lending		
Birgit Hansl (TTL)	Senior Economist	SASEP
Supervision		
William Byrd	Adviser	OPCFC
Deepal Fernando	Senior Procurement Specialist	SARPS
David C. Freese	Senior Finance Officer	CTRFC
Richard Spencer Hogg	Adviser	SASGP
Yoichiro Ishihara	Senior Economist	OPCAE
Ranjana Mukherjee	Senior Public Sector Specialist	SASGP
Sheila Braka Musiime	Sr Counsel	LEGOP
Hamish Antony David Nixon	Consultant	SASDU
Marco Scuriatti	Senior Operations Officer	AFCS1
Muhammad Shafiq	Program Assistant	SASEP
Paul Edwin Sisk	Lead Financial Management Specialist	SARFM
Oleksiy A. Sluchynsky	Senior Economist	SASSP
Michael C. Stanley	Lead Mining Specialist	SEGOM
Anne Tully	Senior Operations Officer	OPCFC

Source: World Bank, 2011e.

Annex B: Selected Economic Indicators

	2006/07	2007/08	2008/09	2009/10	2010/11 Prel.	2011/12 Projection	2012/13 Projection	2013/14 Projection
Output and prices 1/	(Annual percentage change, unless otherwise indicated)							
Real GDP	5.6	13.7	3.6	21.0	8.4	5.7	7.1	5.8
Nominal GDP (in billions of Afghanis)	352	436	534	615	730	862	968	1,074
Nominal GDP (in billions of U.S. dollars)	7.1	8.7	10.5	12.5	15.9	18.4	19.6	21.0
Consumer prices (period average)	5.1	13.0	26.8	-12.2	7.7	10.5	4.6	5.0
Food	3.5	19.2	37.6	-19.5	7.3	8.1	4.7	...
Non-food	7.3	4.7	9.9	1.9	8.3	14.2	4.6	...
Consumer prices (end of period)	4.8	20.7	3.2	-5.1	16.6	7.7	5.0	5.0
Investment and savings	(In percent of GDP)							
Gross domestic investment	43.6	40.6	36.4	31.7	26.3	22.6	21.9	21.6
Of which: Private	8.2	8.6	9.0	8.7	8.5	8.6	8.9	9.5
Gross domestic savings	36.1	41.9	37.3	28.9	27.9	22.6	20.9	19.0
Of which: Private	5.7	12.2	14.0	7.5	9.2	8.6	9.3	8.5
Public finances								
Domestic revenues and grants	18.3	19.9	17.5	20.5	22.0	23.7	23.7	24.0
Domestic revenues	8.2	7.7	7.8	10.3	11.0	11.5	11.3	11.6
Grants	10.2	12.3	9.8	10.2	11.0	12.2	12.4	12.4
Expenditures	21.5	22.0	21.7	22.1	21.1	23.8	25.3	25.7
Operating 2/	12.3	11.6	13.1	14.5	15.1	17.6	18.6	18.7
Development	9.2	10.3	8.6	7.6	5.9	6.2	6.6	7.0
Overall balance (including grants)	-3.1	-2.0	-4.1	-1.6	0.9	0.0	-1.6	-1.7
Operating balance								
Including grants 3/	1.3	1.4	0.2	1.2	3.3	1.6	0.4	0.2
Excluding grants 4/	-4.2	-4.0	-5.3	-4.2	-4.1	-6.1	-7.4	-7.1
Monetary sector	(Annual percentage change, unless otherwise indicated)							
Reserve money	22.3	14.4	64.9	17.1	21.3	18.8	17.1	16.2
Currency in circulation	13.3	17.0	30.4	28.5	34.2	17.8	16.8	16.0
Broad money	...	31.0	35.9	39.3	22.6	18.3	15.1	17.1
Interest rate, 28-day capital note (end-period, in percent)	7.6	14.9	8.9	4.3	2.4	...	...	...
External sector 1/	(In percent of GDP, unless otherwise indicated)							
Exports of goods (in U.S. dollars, percentage change) 5/	1.4	1.8	33.0	2.1	12.7	2.5	-8.8	-3.4
Imports of goods (in U.S. dollars, percentage change)	10.0	15.6	14.8	-0.8	3.0	0.4	0.0	0.6
Merchandise trade balance	-69.7	-67.9	-61.9	-50.9	-39.6	-34.1	-33.3	-31.7
Current account balance								
Excluding official transfers	-71.1	-68.1	-59.6	-51.3	-39.8	-34.3	-33.2	-31.5
Including official transfers	-5.6	1.3	0.9	-2.8	1.7	0.1	-1.1	-2.6
Foreign direct investment	2.7	2.8	2.9	2.4	2.1	2.1	2.3	2.9
Total external debt 6/	169.6	23.0	19.7	9.2	8.0	7.9	8.6	9.1
Gross international reserves (in millions of U.S. dollars)	2,040	2,784	3,591	4,209	5,321	6,121	6,627	7,178
(Import coverage) 7/	3.4	4.1	5.3	6.0	7.4	8.4	9.0	9.5
(Relative to external debt service due)	79	43	215	213	425	425	298	165
Afghanis per U.S. dollar (average)	49.9	49.8	51.0	49.3	45.8	...	...	...
Real effective exchange rate (average, percentage change)	-2.0	3.1	14.3	-17.0	13.9	...	...	...
Memorandum items:								
Opium statistics (wet opium)								
Production (in tons)	6,100	8,200	7,700	6,900	3,600	...	...	...
Price (in U.S. dollars per kilogram)	94	86	70	48	128	...	...	...
External budget grants (in percent of GDP) 8/	55.4	57.4	49.3	39.9	30.5	22.1	19.7	16.5

Source: Afghan authorities; United Nations Office on Drugs and Crime; and Fund staff estimates and projections.

1/ Excluding the narcotics economy.
2/ Comprising mainly current spending.
3/ Defined as domestic revenues plus operating grants minus operating expenditures.
4/ Defined as domestic revenues minus operating expenditures.
5/ Includes official recorded exports, estimates of smuggling, reexports and sales to nonresidents.
6/ After HIPC and MDRI debt relief, as well as debt relief beyond HIPC relief from Paris Club creditors. Debt includes obligations to the IMF.
7/ Gross reserves in months of next year's imports of goods and services, excluding imports for reexport.
8/ Estimated direct expenditures by donors on public projects not included in the government budget.

Source: IMF, 2011.