

PFM Case Study
Islamic Republic of Afghanistan



The Islamic Republic of Afghanistan
*improves governance through public financial management
reform and capacity building*



Public Financial Management in Afghanistan

The Islamic Republic of Afghanistan improves governance and capacity building

Executive Overview

The Islamic Republic of Afghanistan has achieved remarkable results in Public Financial Management (PFM) reform. This post-conflict country once ruled by the Taliban has stabilized political conditions, improved governance, and made critical steps toward achieving international PFM standards under tumultuous conditions. These achievements have been overshadowed by perceptions of endemic corruption (Howell 2010).

Sequencing PFM reform is considered a good government practice, although “it is impossible to prescribe a sequence of reforms which is appropriate in all circumstances (DFID 2001).” There are numerous lessons in the Afghanistan experience linking reform to good governance that can be emulated by governments around the world.

COUNTRY FACTS	
	Afghanistan South Asia
CAPITAL CITY: Kabul	
AREA: 647,500 km ²	
POPULATION: 28,395,715	
LANGUAGES: Afghan Persian or Dari, Pashtu, Turkic languages, 30 minor languages	
CURRENCY: Afghani	

Importance of PFM Reform

Research has shown a statistically relevant link between good governance indicators and development (Kaufmann, Kraay & Mastruzzi 2008). For example, countries whose governments achieve higher good governance indicators tend to have higher GDP per capita and longer average life expectancy.

PFM reform is acknowledged to be a mechanism to improve good governance. “The quality of public financial management (PFM) systems is a key determinant of government effectiveness. The capacity to direct, manage and track public spending allows governments to pursue their national objectives and account for the use of public resources and donor funds (de Renzio & Dorotinsky 2007).”

ACHIEVEMENTS
▶ Improved governance as demonstrated by PEFA assessments
▶ Effective implementation of PFM reform in Treasury
▶ Capacity built for budget execution, government-wide
▶ Decentralization of budget execution to line Ministries and Mustofiats reflecting successful capacity building

Financial Management Information Systems (FMIS) or Government Resource Planning (GRP) are recognized as technology tools to assist in PFM reform. “The establishment of an FMIS has consequently become an important benchmark for the country’s budget reform agenda, often regarded as a precondition for achieving effective management of the budgetary resources. Although it is not a panacea, the benefits of an FMIS could be argued to be profound (Diamond & Khemani 2005).”

FreeBalance Case Study Series

The purpose of the FreeBalance Case Study Series is to share good PFM practices. These Case Studies highlight FreeBalance customer achievements but are not specific to the use of the FreeBalance Accountability Suite software. Governments use information technology in public financing as a tool to achieve government goals. These Case Studies show how objectives were achieved.



History of Public Financial Management Reform in Afghanistan

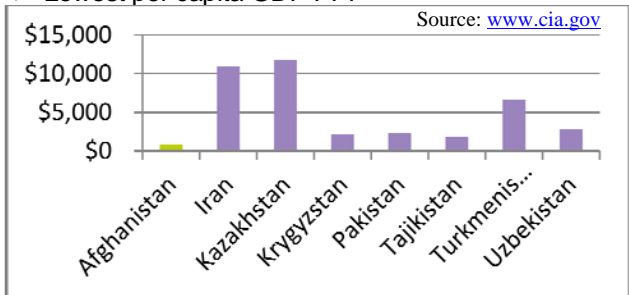
Public Financial Management (PFM) reform began in Afghanistan in 2002, shortly after the ruling Taliban government was removed from power. A transitional government was established by the Bonn Agreement. BearingPoint Inc. (formerly KPMG Consulting Inc.) was chosen to establish a public sector accounting system for the Ministry of Finance funded by the United States Agency for International Development (USAID). The FreeBalance Accountability Suite was selected as the Afghanistan Financial Management Information Systems (AFMIS). In 2007, the World Bank decided to fund another PFM project to upgrade the system established by BearingPoint and transfer the skills to local civil service staff to ensure sustainability (WBG-PFMRP 2007).

“The GoA’s long-term vision is to meet the Millennium Development Goals by 2020. The Government’s development strategy up to 2010 was first set out in the *Interim Afghanistan National Development Strategy (I-ANDS)* which was drawn up in 2006. This strategy has been used as a basis to develop the full *Afghanistan National Development Strategy (ANDS)*, up to 2013, completed in April 2008. The process builds on the work done by interim authorities in 2002/04 in preparing the *National Development Framework and Securing Afghanistan’s Future* – these were country-led initiatives and laid the foundation for Afghanistan’s relationship with development partners since the fall of the Taliban regime in 2001 (Beaudienville, Davin 2010)”

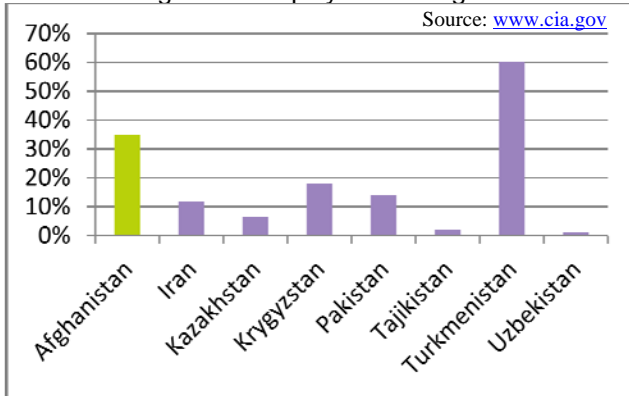
“The development of the AFMIS, a *Free Balance*-based application with an initial basic configuration, started in 2002. As often the case in countries with weak capacity, the launch of the system was a critical donor requirement for budget support. The first check (for payment disbursement) from the system was issued in October 2002, two months after the start of the project. The system was progressively expanded to line ministries and provinces, and in May 2010, the authorities reached an important milestone by providing AFMIS connectivity to Nuristan, the last of the 34 provinces to be connected (Platais, Messali, Pattanayak 2010).”

REGIONAL COMPARISONS & GOVERNMENT CHALLENGES

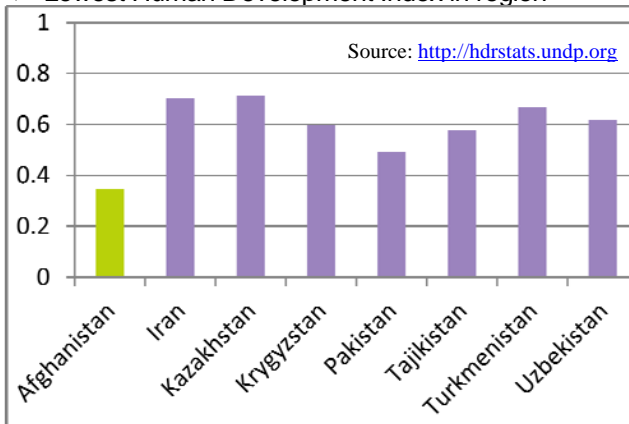
► Lowest per capita GDP PPP



► Second highest unemployment in region



► Lowest Human Development Index in region





Challenges

Economic

“After nearly three decades of continuous conflict the country emerged in late 2001 as a truly devastated state with its human, physical and institutional infrastructure destroyed or severely damaged. At that time the UN Human Development Report ranked Afghanistan as the second poorest country in the World (ANDS 2008).”

Afghanistan has a high poverty rate, is landlocked, and is highly dependent on foreign aid, agriculture, and trade with neighbouring countries (CIA Factbook). The infrastructure needed for growth is limited and critical markets are underdeveloped (ANDS 2008). “The economy is dominated by the informal sector (Bird 2007).” Afghanistan faces a 35% unemployment rate, 36% of the population being below the poverty line, and having a 30.5% estimated inflation rate in 2009 (CIA Factbook).

Aid Effectiveness

Afghanistan is an aid-dependent country. With over half of aid “channelled outside the country’s financial systems (Beaudienville, Davin 2008),” it has become difficult to effectively meet government objectives. The lack of information on aid flows makes planning difficult (GoA, 2007). This is “complicated by the large number of donors (Bird 2007),” lack of harmonization (OECD 2008) and significant donor shortfalls on commitments (Waldman 2008).

Capacity and Sustainability

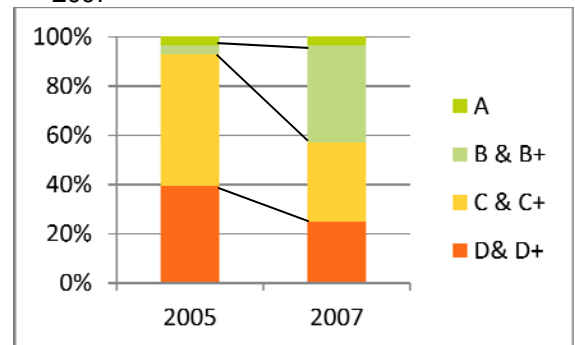
“Post-conflict countries typically lack both capacity and infrastructure in the area of public financial management (PFM)... the continued heavy reliance on contracted technical assistance appointments (through donor-financed projects) for operational activities, raises the question of the sustainability of PFM capacity-building. (Pattanayak 2009)” Sustaining systems for public financial management in aid-dependent countries is considered difficult. The “incentives of development assistance help to undermine its effectiveness (Gibson, Ostrom, Shivakumar 2001)”. “The complexity of reporting demands imposed by donors, and the variability and irregularity of information received from them, further adds to the time and procedural demands placed on overburdened staff (Pattanayak 2009).”

PEFA ASSESSMENTS

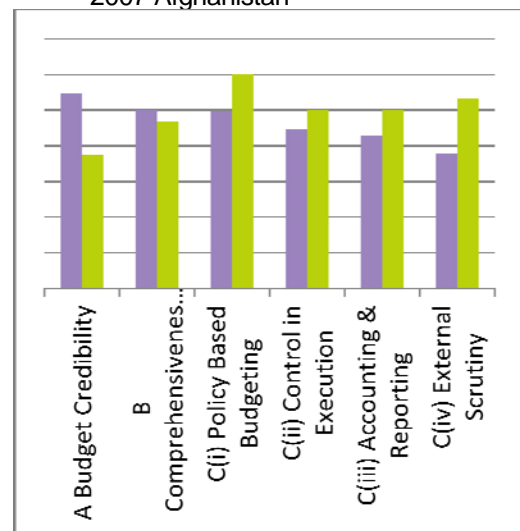
- ▶ Donor Partnership: “PEFA aims to support integrated and harmonized approaches to assessment and reform in the field of public expenditure, procurement and financial accountability”
- ▶ Completed 2 Public Expenditure and Financial Accountability (PEFA) assessments
- ▶ Less than 10 countries have completed 2 PEFA assessments
- ▶ www.pefa.org

PEFA COMPARISONS

- ▶ Afghanistan PEFA improvements from 2005 to 2007



- ▶ Afghanistan PEFA Compares Favourably
 - 2007 International Average
 - 2007 Afghanistan





The sustainability of the FreeBalance Accountability Suite implementation was challenged by a lack of reliable and consistent communication connectivity, insufficient capacity for accounting in computerised environment, and a lack of facilities for training cadre in Financial Management functions (FISC 2008). “When the Interim Administration took office in January 2002, there were no computers in the Ministry of Finance (MoF) and few understood the proper role of a finance ministry (Platais, Messali, Pattanayak 2010).”

The Treasury Directorate focused on “capacity-building of civil servants with some dependence on advisors. This “has proved highly effective. The Budget Directorate, by contrast, is yet to come up with an effective strategy that addresses both its current operational needs as well as longer-term sustainability objectives (Pattanayak 2009)”.

The Afghanistan reliance on partner financing means that donor practices remain important for PFM and development performance. Actual budget support reached at least 90 percent of budgeted figures in two of the last three years, and quarterly disbursements do not deviate from the original disbursements schedule (PEFA 2008). “The positive results of this program have helped the Treasury replace many donor-funded operational positions with civil service staff. Only a small number of key positions at the Treasury are currently funded by donors (Pattanayak 2009).”

Training and internships were leveraged by the Government of Afghanistan (WBG-ICRR 2009). “The training program included the introduction to Treasury operations, financial planning and commitment control, payment/disbursement procedures, introduction to AFMIS and the new chart of accounts (CoA). Over 500 staff members were trained and additional training was given to staff members (WBG-ICRR 2009).”

Despite these limitations, the Government of Afghanistan was able to de-centralize AFMIS to every Mustafiat or province in the country with the completion of the Nuristan implementation (Howell 2010).

Corruption

Corruption remains a widespread problem in Afghanistan. “Thirty years of conflict that has weakened underdeveloped state institutions and the country’s social fabric, Afghanistan’s dominant role in worldwide opium and heroin production, and the tremendous size and diversity of international security, humanitarian and development assistance all increase Afghanistan’s vulnerability to corruption (Leonardo 2009).”

“Corruption is rampant and has become more entrenched in all areas of life in Afghanistan, and the Afghan government is under increased pressure to address the issue (Integrity Watch 2010).” The Government of Afghanistan “vows to fight the Taliban harder, spend international aid money more wisely, end corruption, and promote good governance in order to win the embattled population over to his side (Moreau, Yousafzai 2010).”

It should be noted that the vast majority of corruption found comes external to AFMIS. “A transparent financial system guarantees fast economic growth of a nation (Ahsan 2010).” AFMIS provides controls, delegation of authority and audit trails that limits the opportunity for corruption to informal systems. The AFMIS “has helped the government in the management and execution of budget, control of public expenditures, reduction of corruption, collection of revenues and on-time payment of salaries to government employees (Ahsan 2010)”. The Ministry of Finance publishes an accounting manual (MoF AM) and regular monthly budget reports (MoF BR) to improve transparency in public finances. “The beneficiaries of manual financial system in Afghanistan were the corrupt officials (Ahsan 2010).”



Government Goals

Improved Governance and Transparency

Governance is a pillar of the Afghanistan National Development Strategy (ANDS 2008). Since the first Public Expenditure and Financial Accountability (PEFA) assessment in 2005, the Government of Afghanistan has significantly improved governance and transparency. Fiscal discipline and transparency contribute to macroeconomic stability and sustained external assistance (WBG-PEFA 2008). Social cohesion can be achieved through governance reform through transparent institutions, decentralization and improved access to citizen services (WBR-ICRR 2009).

An Integrated Financial Management Information System (IFMIS) “can enable prompt and efficient access to reliable financial data and help strengthen government financial controls, improving the provision of government services, raising the budget process to higher levels of transparency and accountability, and expediting government operations” (Rodin-Brown 2008). From 2005 to 2007, the Government of Afghanistan improved governance as demonstrated by PEFA assessments. The Government improved 17 of 31 PFM measurements. The largest improvement was seen in the ‘Predictability and Control in Budget Execution’.

The Government of Afghanistan improved the “timeliness and regularity of accounts reconciliation and quality and timeliness of annual financial statements”, (WBG-PEFA 2008). Overall, Afghanistan’s PEFA scores are still rather low, with an average score of less than 2. While the improvement made since 2005 has been remarkable, there is still a lot of room for Afghanistan to further develop its PFM services.

“Afghanistan’s rating in the Open Budget Index has improved to 30% for 1390 by improving communication across Government bodies, as well as with civil society organizations, improved resources for both internal and external audit, and increased use of financial reporting through AFMIS (UNDP 2010).”

AFGHANISTAN NATIONAL DEVELOPMENT STRATEGY (ANDS)

- ▶ **Security:** Achieve nationwide stabilization, strengthen law enforcement, and improve personal security for every Afghan.
- ▶ **Governance, Rule of Law and Human Rights:** Strengthen democratic processes and institutions, human rights, the rule of law, delivery of public services and government accountability.
- ▶ **Economic and Social Development:** Reduce poverty, ensure sustainable development through a private-sector-led market economy, improve human development indicators, and make significant progress towards the Millennium Development Goals (MDGs).

2009 AFGHANISTAN PEFA ASSESSMENT – “B and above”

- ▶ PI-3 Aggregate revenue out-turn compared to original approved budget
- ▶ PI-6 Comprehensiveness of information included in budget documentation
- ▶ PI-7 Extent of unreported government operations
- ▶ PI-10 Public access to key fiscal information
- ▶ PI-11 Orderliness and participation in the annual budget process
- ▶ PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting
- ▶ PI-16 Predictability in the availability of funds for commitment of expenditures
- ▶ PI-17 Recording and management of cash balances, debt and guarantees
- ▶ PI-19 Competition, value for money and controls in procurement
- ▶ PI-22 Timeliness and regularity of accounts reconciliation
- ▶ PI-25 Quality and timeliness of annual financial statements
- ▶ PI-27 Legislative scrutiny of the annual budget law
- ▶ D-1 Predictability of Direct Budget Support



Sequence of Public Financial Management Reform in Afghanistan

Phasing of PFM reform is considered a good practice by providing a “politically acceptable pace of sequenced reform, through achieving gradual manageable steps (DFID 2005).”

The sequence of reform depends on the country context.

“Implementing public finance reforms of any kind requires an understanding of the entire public finance system in place in that country. It requires an understanding of the institutional arrangements (Rodin-Brown 2008).” In Afghanistan, the implementation of an IFMIS came first, followed by expansion to line ministries and the Mustofiat in line with capacity building. It was important to establish a solid framework in Kabul first before extending services to the outer framework.

According to Behxhet Brajshori, “System implementation can be achieved in a matter of weeks; financial management reform takes years” (Brajshori 2007). Governments tend to implement budget, treasury and accounting standards before embarking on performance management initiatives (Tandberg & Pavesic-Skerlep 2009).

Legal Reform

The political transformation of Afghanistan, implemented according to the 2001 Bonn Agreement, was successfully concluded in late 2005 (WBG-PFMRP 2007).

“A modern legal framework has been adopted and provides solid legal foundations for public finance management through three main laws and their associated regulations: the Public Finance and Expenditure Management (PFEM) Law in July 2005, the Procurement Law of October 2005 and the Income Tax Law in November 2005 (Beaudienville, Davin 2008).”

Budget and Treasury Management

New Public Financial Management reform was initiated in Afghanistan in September of 2002 with the goal of achieving expenditure and budget controls with auditable transactions (WBG-PFMRP 2007). The Afghanistan Financial Information System (AFMIS), using the FreeBalance Accountability Suite, was initially implemented two months in October of 2002 (Platais, Messali, Pattanayak 2010). Successful implementation bred more funding by the World Bank to extend the capabilities of the original system (WBG-PFMRP 2007). The AFMIS was upgraded and extended through a grant from the World Bank in 2006 (WBG-PFMRP 2007).

Establishing the financial information system was the original goal. Establishing the necessary legal framework for PFM and procurement systems was the primary objective for the subsequent phases. The four components of achieving that objective were: (1) restructuring the major departments within the Ministry of Finance, (2) helping establish a new human resources management unity, (3) establishing a Reform

GOOD PRACTICE: SEQUENCING PFM REFORM

- ▶ Afghanistan began by **implementing** a new, simple financial management framework in Kabul then decentralized.

- ▶ Improvements to financial management processes followed **political stability**

- ▶ **Decentralization** to line ministries and municipal governments followed implementation

- ▶ Addition of government accounting, improved expenditure management and **transaction processing** in line with government objectives

- ▶ Sequencing of **transparency** efforts with regular, automated, and timely reporting of expenditure data

- ▶ Electronic Funds Transfer (EFT) implementation



Management Unit, and (4) financing direct operational costs incurred in providing direct assistance to the government (WBG-PFMRP 2007).

“Reforms in two key areas particularly facilitated the development of the AFMIS. First, measures were taken to consolidate the government banking arrangements by setting up a Treasury Single Account (TSA) This helped centralization of payments and recording of all transactions through the Treasury. Second, the adoption of a GFSM 2001-and COFOG-compatible chart of accounts allowed streamlining of the accounting framework and improved the cash-basis financial reporting (Platais, Messali, Pattanayak 2010).”

“Budget execution has increased by 10-20% annually over the medium-term (compared to the amount of executed budget for the previous year) through focused capacity development in planning and procurement practices at the provincial level and in line ministries (UNDP 2010).”

SEQUENCE OF PUBLIC FINANCIAL MANAGEMENT REFORM IN AFGHANISTAN: 2002 TO 2010

LEGAL REFORM	YEAR	ACHIEVEMENTS
▶ Public Administration Reform (PAR)	2002	<ul style="list-style-type: none"> ▶ Implementation of the Afghanistan Financial Information System (AFMIS) ▶ Strengthening the procurement processes, supporting the Ministry of Finance in its core function of expenditure management, and operating and supporting the development of a sound audit capacity within the Ministry of Finance ▶ Addressing needs of the Ministry of Finance
▶ Independent Administrative Reform and Civil Service Commission (IARCSC) created	2003	
▶ New Constitution adopted	2004	
▶ New Income Tax Law approved. ▶ New Public Finance and Expenditure Management (PFEM) Law approved. ▶ New Procurement Law approved.	2005	▶ Verified Payroll Program replaces bonded trustee system
	2006	▶ Access for report viewing in 3 line ministries
▶ Capacity Development Plan for the Common Functions for the Civil Service	2007	▶ Transaction processing implemented in two line ministries and one provincial finance office (Mustofiat)
	2008	<ul style="list-style-type: none"> ▶ Transaction processing in 14 line ministries and 12 provincial Mustofiats ▶ More than 85% of all budget execution is processed on a real-time basis on AFMIS ▶ Rollout of Purchasing, Revenue and Assets modules begins
	2009	<ul style="list-style-type: none"> ▶ Rollout to 19 Provincial offices, 34 Budgetary Entities ▶ More than 99% of the government’s budget execution is captured in AFMIS on real-time basis ▶ Regular training on AFMIS resulted in 262 government employees being added to the AFMIS skilled workforce
	2010	<ul style="list-style-type: none"> ▶ AFMIS Rollout and its Implementation to 31 Provincial centers and all 46 Budgetary Entities and Line Ministry ▶ Update of COA to reflect pro-poor expenditure tracking ▶ 80% of revenue collected on a daily basis ▶ AFMIS training for 500 employees



Important Developments

The Government of Afghanistan has achieved numerous public financial management achievements.

ECONOMIC DEVELOPMENTS

- ▶ During the first two years of the program, growth averaged about 10 percent per year, but revenue performance was weak, and growth fell back to about 3½ percent in fiscal year 2008/09 because of a severe drought. The economy grew by 22 percent in 2009/10 in light of a strong recovery in agriculture and higher donor inflows, and inflation was minus 12 percent (IMF 2010).
- ▶ Macroeconomic stability has been maintained, based upon disciplined fiscal and monetary policies. A new unified currency was successfully introduced; inflation has remained low while the exchange rate has been stable (ANDS 2008).
- ▶ On the development front, progress in some vital areas has been impressive—the improvement of road networks has reduced travel times and provided better access for rural communities—a particular challenge given the topography of this mountainous nation. School enrollment rates have reached all time highs; health facilities are improving and are now accessible by 90% of the population; commercial banks have opened up for business; and microfinance programs have extended services to thousands, predominantly women (WBG-PMRP 2006).
- ▶ Amidst these problems and constraints, there are some positive features. First, Afghanistan has an entrepreneurial population. Second, the country by and large maintains a market-oriented and unrestricted environment for the private sector, and rigid labor laws are not a constraint on economic activity and employment (Bird 2007).

FINANCIAL MANAGEMENT AND TRANSPARENCY

- ▶ In public sector management and governance, ***the greatest progress has been made in public finance management (PFM)***, including revenue mobilization and other budgetary trends as well as major improvements in the whole range of PFM processes and systems (Bird 2007).
- ▶ The computerized Afghanistan Financial Management Information System (AFMIS) enables the Ministry of Finance to produce monthly reports (which are put on their website) within a month (WBG-PEFA 2008).
- ▶ Budget execution and fiduciary controls have been enhanced with the implementation of the centralized and computerized Afghanistan Financial Management Information Systems (AFMIS) that permits real-time reporting of expenditures, allowing weekly reporting on budget expenditures from the Ministry of Finance (MoF) to the Cabinet. These developments have contributed to increasing the implementation ratio of the budget and raising fiduciary standards (Beaudienville, Davin 2008).
- ▶ Comparison with other countries shows that PFM performance in Afghanistan as of December 2007 is better than that of many other comparable countries in most categories. Indicators on budget cycle (C-(i)-(iv)) outperform even the average for those middle income countries for which PEFA assessments are available, which suggests that there have been major improvements in this area (WBG-PEFA 2008).
- ▶ The system was running within two months, recording source and donor funds and tracking how monies were spent. It has built a tremendous amount of transparency and accountability into the nation's finances, says Mike Vlasisavljevich, BearingPoint's managing director for the project. "It was totally manual before," he explains (Solomon 2004).
- ▶ Government accounts have been consolidated into a "Treasury Single Account" along with the presentation of audited core budget financial statements to Parliament (ADB 2007).
- ▶ The AFMIS remains a key component of the authorities' PFM reform agenda, and its successful implementation has also benefited from complementary reforms in core financial management functions (Platais, Messali, Pattanayak 2010).
- ▶ 99% of payments processed within two business days from receiving payment request meeting control requirements (MoF 2010).
- ▶ The Treasury Department has established and implemented a procedure by which advances and suspense accounts are cleared at least annually (WBG-PEFA 2008).
- ▶ Financial statements for donor-funded investment projects and Government funds are now prepared on time and are audited to international standards (Okpara 2007).
- ▶ The GoA, with donor support, has already undertaken a range of initiatives to establish and strengthen the national system for public financial management, including budget process, financial management and procurement regulations, and efforts are underway to further meet international standards (Beaudienville, Davin 2008).



REVENUE MANAGEMENT

- ▶ Strong revenue performance in the past few years and donor support to operating expenditures through the Afghanistan Reconstruction Trust Fund (ARTF) and Law and Order Trust Fund (LOTFA) have enabled the government to maintain budgeted operational expenditures (WBG-PEFA 2008).
- ▶ In FY2008, the share of domestic tax revenues total revenues (41%) surpassed the share of international receipts (35%) (ADB 2009-PFM).

BUDGET FORMULATION

- ▶ Fiscal and financial management reforms in Afghanistan have progressed well. The government developed a medium-term fiscal framework (MTFF), with ADB support, to provide forward-looking macro resource allocation. However, the link between the MTFF and the government's annual budgeting process needs to be strengthened. The government also piloted program budgeting in selected ministries. It has increased technical capacity in the Ministry of Finance (MOF). MOF now has greater budget predictability, transparency, and comprehensiveness, although further improvements remain needed (ADB 2009-PFM).
- ▶ The operating budget is credible as funding from domestic revenues and donors (e.g. ARTF and LOFTA) has been stable (WBG-PEFA 2008).
- ▶ Budget preparation and execution have improved significantly, particularly with the introduction of a "core" budget in June 2004 that consolidates the operating budget with the development budget and the commencement of a pilot program and provincial budgeting (ADB 2007).
- ▶ The quality of budget formulation has been improved by introducing a Medium-Term Fiscal Framework (MTFF) and integrating the operating and development budgets (ADB 2009).
- ▶ ANDS priorities incorporated in the budget formulation in 1389, Publishing of approved budget, (MoF 2010)

PUBLIC SECTOR REFORM

- ▶ The salaries of employees are directly transferred to their bank accounts every month without any delays. Receiving on time salary has been surprising for many government employees (Ahsan, 2010).

CAPACITY BUILDING

- ▶ The technical expertise of the Ministry of Finance has been significantly improved in several areas, although additional emphasis on sustainable staff development through targeted recruitment and training will be needed (WBG-PEFA 2008).
- ▶ Against this background, the authorities have made substantial progress in implementing the Afghanistan Financial Management Information System (AFMIS) to make public financial management (PFM) more effective and efficient. (Platais, Messali, Pattanayak 2010).
- ▶ Regular training on AFMIS has resulted in 262 government employees being added to the AFMIS skilled workforce (FISC 2010).
- ▶ There have also been **institutional improvements and capacity development**, especially in the Ministry of Finance (MoF). These achievements have provided confidence to donors resulting in mobilization of high levels of external support for the national budget, mainly through the Afghanistan Reconstruction Trust Fund (ARTF) which finances most of the civilian recurrent budget (WBG 2005).
- ▶ Concerning capacity building, 12 trainings were conducted in different areas and 355 staff of the MoF participated in these trainings. Additionally, 43 staff were sent abroad for training. (MoF 2010).

DECENTRALIZATION

- ▶ As at the end of first quarter, Afghanistan Financial Management Information System (AFMIS) has been rolled out to all budgetary entities and all provinces. Verified Payroll Program has covered 460,000 government employees, of whom 270,000 receive their payments through direct deposit in their bank accounts. Bank reconciliations are completed monthly within 25 days after end of the month and monthly treasury reports are published in treasury website without any delay (MoF 2010).
- ▶ The provincial Mustofiats exploit all the current functionality available in AFMIS, include check printing (WBG-ICRR 2009).

AID MANAGEMENT

- ▶ The Government's donor coordination capacity has improved and as of the end of 2008 MOF is better equipped to lead a productive dialogue with all donors on their respective programs of assistance, giving partnership under the 2006 Afghanistan Compact new meaning. A medium-term expenditure framework that includes national priority programs has been prepared. Financial management and accountability of line ministries is improved (ADB 2009).



Conclusions

Road to Good Governance

Globalization has created a competitive environment for countries. Risk and opportunity are key drivers for businesses. Good governance creates country stability and encourages business investment to fuel economic growth. Building the capacity and accountability of the Afghan state is an important step towards sustainable good governance in Afghanistan because it ensures the provision of affordable and accessible services for citizens (WBG-ISN 2006).

Performance and Transparency

The Government of Afghanistan is seeking an “efficient financial system and proper accountability can not only improve the trust of Afghans but also increase the confidence of the donors on the government of Afghanistan (Ahsan, 2010).”

“The computerised financial management system also tends to reduce corruption opportunities. In Afghanistan, around seven signatures were needed for every payment in the paper-based system and each signature required a small bribe. This avenue for corruption was eliminated with the implementation of the Afghanistan Financial Management System. To date, only one case has been reported where there was an allegation of improper use of the system and the individual was caught (Symansky 2010).”

“Significant progress has been made in transparency and comprehensiveness although some weaknesses remain (WBG-ICRR 2009).” PFM reform improvements required by the Government of Afghanistan include improved procurement controls (WBG-PEFA 2008), streamlined bureaucracy (Bird 2007), improved decentralized program budget planning and execution (Javed 2010) and enhanced reporting (WBG-PEFA 2008). The Government requires overcoming structural deficiencies in the civil service (ANDS 2010). Moving to accrual accounting will enhance the effectiveness of public administration (FISC 2008).

Sustaining PFM Reform

Insecurity remains a concern for external donors like the World Bank and IMF (IMF 2006). The precarious security situation threatens to undermine several government initiatives and is the main reason for lower governance scores in Afghanistan. The PFM foundation must be sustainable so that the government is fully capable of defining and directing development based on country priorities.

“Substantial assistance in program budgeting, expenditure management, internal auditing, and procurement systems and the skills to properly use them have substantially improved central government operations (Leonardo 2009),” but more work is required to leverage controls in AFMIS.

“Capacity building remains important, particularly at the sub-national level and for budget planning (Beaudienville, Davin 2008).” “Affordable and efficient services need to be provided, and capacity among public servants must be developed to ensure proper oversight. This requires developing systems to ensure transparent accounting of public funds and to build methods of accountability to citizens (WBG-ISN 2006).”





GRP Modernization Scorecard

The scope of reform and modernization differs among governments based on the country context. Government Resource Planning functionality in the Islamic Republic of Afghanistan is comprehensive and decentralized. Further modernization of automation is part of the PFM Reform Action Plan.

	FUNCTIONALITY	DECENTRALIZATION	MODERNIZATION
PUBLIC FINANCIALS MANAGEMENT	▶ Budget controls	▶ Line ministries	▶ Segregation of duties
	▶ Assets	▶ Regions	▶ IPSAS & GFS
GOVERNMENT TREASURY MANAGEMENT	▶ Audit	▶ Municipalities	▶ Accrual accounting
	▶ Cash management	▶ Delegated treasury	▶ Treasury Single Account
▶ Cash controls	▶ Bank reconciliation		
PUBLIC EXPENDITURE MANAGEMENT	▶ Debt management	▶ Delegated purchasing	▶ EFT
	▶ Investment management		▶ Cash forecasting
GOVERNMENT RECEIPTS MANAGEMENT	▶ Expenditure Controls	▶ Local tax collection	▶ Procurement
	▶ Purchasing		▶ e-Procurement
CIVIL SERVICE MANAGEMENT	▶ Non-tax revenue		▶ Grant management
	▶ Customs		▶ Case management
GOVERNMENT PERFORMANCE MANAGEMENT	▶ Income tax	▶ Budget delegation	▶ Recruitment
	▶ Payroll		▶ Program budgeting
GOVERNMENT PERFORMANCE MANAGEMENT	▶ Pensions	▶ Bottom-up Budgets	▶ MTEF
	▶ Workforce management	▶ Local PEFA assessments	▶ Publish budget reports
GOVERNMENT PERFORMANCE MANAGEMENT	▶ Budget classifications	▶ Citizen services	▶ Macro-fiscal framework
	▶ Management reporting		▶ Scenario planning
GOVERNMENT PERFORMANCE MANAGEMENT	▶ Budget preparation		▶ Performance budgets
	▶ Budget circular		▶ Outcome measures

Items highlighted in white have been implemented, in gray have yet to be implemented

Roadmap for Reform

The Afghanistan National Development Strategy (ANDS 2010) has identified opportunities for public financial management reform.

PUBLIC FINANCIALS MANAGEMENT

- ▶ “strengthen democratic processes and institutions, human rights, the rule of law, delivery of public services, and government accountability.”

GOVERNMENT PERFORMANCE MANAGEMENT

- ▶ Use of National Priority Programs to “support Afghanistan’s transition to financial independence and develop a business climate that enables private investment.”
- ▶ “Intended Results and Budget Matrices for the National Priority Programs and related Government priority initiatives, giving emphasis to urgent government reforms critical to the delivery of the socioeconomic development related National Priority Programs.”
- ▶ “Medium-Term Financial Framework (MTFF), and introduce other mechanisms to: (i) Consider long-term financing needs and gaps; (ii) Explore how the Government budget can become the main policy instrument used by donors



and the Government to manage transition; (iii) Facilitate “hand-over strategies” from internationally-led programs; (iv) Monitor the progress of national programs in achieving agreed upon short and medium-term outcomes”

DECENTRALIZATION

- ▶ “National Program for Local Governance will focus on implementing the Sub- National Governance Policy, as well as strengthening institutional development and democratic representation at the sub-national level.”

GOVERNMENT RECEIPTS MANAGEMENT

- ▶ “Broadening the tax base in provinces”

CIVIC SERVICE MANAGEMENT

- ▶ “Introducing and implementing broad-based policy, legal, and structural reforms in public administration; (ii) Improving public service delivery through a simplification of procedures; and (iii) Developing comprehensive training and improving working conditions of the civil service.”
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Government of Afghanistan Lessons Learned

Many governments can learn from the experience of the Islamic Republic of Afghanistan. Many other countries share the same governance problems and thus can serve to learn from Afghanistan’s example.

CORE BUDGETING

- ▶ A Public Finance Management (PFM) Review helped demonstrate the value of supporting government efforts to use the budget as a policy tool and urge donors to support this agenda. As a result, Afghanistan’s partners increasingly understand the need, if one is to seriously address the state-building challenge, of channeling greater amounts of their support through the government budget, while strengthening implementation and fiduciary capacity (WBG-ISN 2006).
- ▶ Transparency is enhanced and corruption opportunities reduced if there is a strong focus on budget execution (Symansky 2010)

CAPACITY BUILDING

- ▶ *Civil Service capacity development* requires strong leadership. Motivation to build capacity becomes limited when consultants are performing functions in the absence of civil servants. Consulting firms offer limited career path to local staff, which exacerbates this problem (WBG-ICRR 2009).
- ▶ *Permanent cadre of personnel in the line ministries* is essential, as lack of continuity of personnel adversely affects retention of knowledge (WBG-ICRR 2009).

PROGRESSIVE ACTIVATION OF TECHNOLOGY, LEADERSHIP AND REFORM

- ▶ The AFMIS remains a key component of the authorities’ PFM reform agenda, and its successful implementation has also benefited from complementary reforms in core financial management functions. For example, the interaction between the central Treasury and provincial *mustofiats* has ensured timely and accurate monthly reporting of revenues and expenditures through the AFMIS (Pattanayak 2009).
 - ▶ This highlights a key and separate point regarding PFM and other reforms – that the best can be the enemy of the good. This does not mean that good business practices should be ignored, but rather, the systems should be easily configurable so that procedures can be adopted over time. The approach in the countries we looked at was to adopt a financial management system that could be quickly implemented, needed little technical support once installed and was configurable. (Symansky 2010)
 - ▶ Contributed to a successful implementation of AFMIS in Afghanistan: (i) ensuring strong MoF support and leadership throughout the period of gradual expansion and upgrade of the AFMIS; (ii) making the development of AFMIS an integral part of the overall PFM reform program, and not considering the AFMIS as an end in itself; (iii) anchoring the AFMIS development on complimentary PFM reforms; and (iv) starting with a modest system configuration and gradually enhancing the system functionality as PFM reforms take hold. The two phase approach—implementing the key system tasks in the center first and embarking on the system implementation in line ministries and provinces later—seems to have served well in the Afghanistan context taking account of the country’s specific challenges (Platais, Messali, Pattanayak 2010).
 - ▶ (a) target a few core FM competencies and do them well; (b) quickly assess the skills and experience of counterpart staff and fill gaps with international agents in core areas for as long as needed; (c) develop and document FM practices and procedures in the local languages to continually reinforce prescribed behaviors; and (d) stabilize the accounting and reporting system in the Ministry of Finance before rolling it out to line ministries (Okpara 2007).
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