Afghanistan:
A Preliminary Fiduciary and Development Risk and Cost-Effectiveness Assessment

Abstract

This is the first fiduciary risk assessment commissioned by Government for Government.

The assessment found that PFM systems are relatively strong. Systemic fiduciary risks fell quickly between 2003 and 2008 but the speed of improvement slowed down in more recent times. The early successes are largely due to starting from a low base, with easier reforms tackled first.

Budget credibility is low – and has always been this way. Systemic weaknesses can be seen as ongoing and serious problems with poor budget execution and performance management. Analysis in this assessment reveals the root causes are linked to ***systemic problems with over-budgeting and rigidities in spending controls.***

The financial costs of reform overall have been relatively high, and have increased significantly in the last few years. Almost $6 billion has been invested by development partners between 2002 and 2013 to strengthen public financial management systems and public sector management more generally.

PFM reform efforts have been issue or theme-based as opposed to team-based – making it more difficult to manage performance and establish a positive performance orientated culture within MoF and the Government.

There is a trade-off between development risks (of not achieving longer term development goals) and fiduciary risks (the shorter term risk of misuse of funds) and is linked to the way aid is provided and managed.

Corruption risks, or the risks of gaps in systems actually being exploited, have remained high throughout.

Economic diplomacy principles would prima facie establish a basis for deeper and broader support from the international community for a reformist agenda set by the President.

The apparent delay in forming government and a sense of political uncertainty appears to be impacting negatively on perceptions. Perceptions of the Government's strong stance on corruption and its reform agenda more generally are on balance positive.

Next steps include road testing this report in order to build a consensus around the problems, and start a robust debate with partners on the possible solutions. The aim being to establish a new vision for a MoF led PFMR process supported by a team-based performance management approach to implementation.

8 April 2015

Kabul, Afghanistan

Abbreviations and Acronyms

AFMIS	Afghanistan Financial Management Information System
AFS	Afghani (currency of Afghanistan)
Art	Article
b	billion
CBA	Cost-Benefit Analysis
CEA	Cost-Effectiveness Analysis
CER	Cost Effectiveness Ratios
CPI	Corruption Perceptions Index
DB	Development Budget
EITI	Extractive Industries Transparency Initiative
EU	European Union
FPD	Fiscal Policy Directorate
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoIRA	Government of Islamic Republic of Afghanistan
HOOAC	High Office for Oversight and Anti-corruption
ICER	Incremental Cost Effectiveness Ratios
IDA	International Development Association
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISPPIA	International Standards for the Professional Practice of Internal Auditing
LIC	Low Income Countries
m	million
MACS	Medium Term Appropriation Control System
MBAW	Making Budgets and Aid Work
MDA	Ministries, Departments and Agencies
MEC	Independent Joint Anti-Corruption Monitoring and Evaluation Committee
MICs	Middle Income Countries
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MP	Member of Parliament
MTEF	Medium Term Expenditure Frameworks
OB	Operating Budget
OBI	Open Budget Index
ODA	Official Development Assistance
PEFA	Public Expenditure and Financial Accountability
PFEML	Public Finance and Expenditure Management Law
PFM	Public Financial Management
PI	Performance Indicator
PPP	Public Private Partnerships
ROSC	Reports on the Observance of Standards and Codes
TA	Technical Assistance
TSA	Treasury Single Account
UNCAC	United Nations Convention Against Corruption
WDI	World Development Indicators

For explanation of Public Financial Management terms refer to PEFA guidance.

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SUMMARY

This the first Fiduciary and Development Risk and Cost-Effectiveness Assessment commissioned by the Government and for the Government. The main conclusions of this assessment are:

- **PFM systems are relatively strong** compared to other countries as revealed by independent and validated assessments of PFM system quality (e.g. PEFA).
- **Systemic fiduciary risks fell quickly between 2003 and 2008** but speed of improvement slowed down in recent times. Early successes reflect that reform started from a low base, less resistance to change and high team moral. Slower progress more recently reflects the difficulty in sustaining reforms over time, which are associated with intractable problems experienced globally including:
    - ***Fragmented and inelastic development and operational budgets*** – making it difficult for leadership to allocate resources in the most efficient way;
    - ***Poor comparability of budgets and end-of-year accounts*** – making it difficult for stakeholders to hold government to account for performance;
    - ***Lack of a medium-term perspective in appropriation control systems*** – making it difficult for leadership to be strategic in allocating and distributing resources.
- **The budget is not as credible as it should be – and has always been this way.** Systemic weaknesses are expressed through ongoing and serious problems with budget execution. Analysis reveals that ***poor performance is due to over-budgeting and rigidities in spending controls***.
- **The financial costs of reform overall have been relatively high**, and have increased significantly in the last few years. Almost $6 billion has been invested by development partners between 2002 and 2013 for strengthening public financial management systems and public sector management more generally. In the years up to 2005 (and under narrow cost-base terms) it is estimated that it cost $35.8m to secure an average half grade improvement in the simple average PEFA score. This compares favourably to a study that showed global estimates of $50m are typical[i]. For the period to 2013 under the same narrow cost-base the estimate is just under $200 million, a large increase. However, under a wider cost-base measure it is estimated that the costs to secure an average half grade improvement balloons to as much as $10.5 billion.
- **PFM reform efforts have often been issue or theme-based as opposed to team-based** – making it difficult to manage performance and establish a positive performance orientated culture within MoF and the Government more broadly. Theme based means that reforms are grouped in to subject areas, which require multiple teams to implement. Such an approach makes it difficult to hold teams to account and reward teams for good performance.
- **There is a trade-off between development risks and fiduciary risks** associated in the way aid is provided and managed. Targeting better development outcomes can be compromised by efforts to avoid exposure to fiduciary, corruption and reputation risks. The single system principle - single plan, single budget, single account, single audit, and single monitoring and evaluation - can often be compromised by efforts to avoid exposure risks.
- **Corruption risks, or the risks of gaps in systems actually being exploited, have remained high** throughout. Implementation of the UN Charter on Anti-Corruption (UNCAC) has been slow and effectiveness of investigations and sanctions has been mixed at best.
- **Economic diplomacy principles would prima facie establish a basis for deeper and broader support from the international community for a reformist agenda set by the President** and focussed on a strong anti-corruption, industry development and peace-process agenda. This is evident though expectations may be unrealistically high in the short-run.
- **The apparent delay in forming government and general political uncertainty appears to be impacting negatively on perceptions**. Delays, however, are likely to be due to the time needed to form government in the current context and secure agreements with key partners.
- **Perceptions of the Government's strong stance on corruption and broader reforms, appears to be having a positive impact** on hopes and expectations.

- **Next steps include road testing this report in order to build a consensus of the problems**, and start a robust debate with implementers on the possible solutions. The aim being to establish a new 2025 vision for MoF supported by a team-based performance management approach to implementation of a rolling 5 year plan of sequenced actions, supported by a set of key output targets and a range of aspirational PFM outcome benchmarks.

1. INTRODUCTION

1. **This the first Fiduciary and Development Risk and Cost-Effectiveness Assessment commissioned by the Government and for the Government.** The objective of this paper is to assist the new Government to: i) understand the fiduciary and development risk environment in which it operates now and in the past; ii) develop its thinking on how to reduce and better manage fiduciary and development risks; and iii) focus attention on securing better value for money from investments including from PFM reform programs aimed at reducing fiduciary and development risks.

2. **This assessment was conducted over two weeks during a mission to Kabul** in March 2015. Meetings were held with key officials within MoF, line agencies and other key central agencies. A semi-structured interview process was followed to draw out information required for the assessment.

3. **Evidence of the direction and magnitude of changes in the quality of Afghan systems and the inherent risks over time was sought**. The purpose of this is to assess institutional performance and the level of institutional commitment to and ownership of PFM system strengthening plans. Such an assessment of performance, commitment and ownership is necessary because: i) it helps provide assurances to donors that investing more in risk sharing is likely to produce better development outcomes; ii) it helps drive a results focus in the areas that matter; and iii) good levels of performance, institutional commitment and ownership form pre-conditions for more flexible and responsive financing of the budget.

4. **The primary methodology used to quantify the magnitude and direction of inherent fiduciary and development risks is the same one used to assess risk in other settings**, including Ghana[ii], Iraq[iii&iv], Liberia[v], Papua New Guinea[vi], Sri Lanka[vii], Timor-Leste[viii&ix], Tokelau[x], Turks and Caicos Islands[xi], UNRWA (including West Bank and Gaza, Syria and Jordan)[xii], Vietnam[xiii], and Zambia[xiv]. The methodology primarily draws on the Public Expenditure and Financial Accountability (PEFA) framework. The reported results in 2005, 2008 and 2013 are used to help quantify risks. The reason for using PEFA is threefold: i) the framework is *comprehensive* – it covers most of the key public financial management areas where risk emerges; ii) it uses *generally accepted standards* for defining and rating system performance; and iii) is relatively *consistent* in its application over time, supporting a results focus in PFM strengthening efforts. For a detailed explanation see Attachment O: Methodology for Quantifying Risk on page 104.

5. **Two different types of risks are distinguished in this assessment**: i) ***fiduciary risk***, which is defined here as essentially the short term risk of mismanagement and misuse of funds; and ii) ***development risk***, which is the longer-term risk of not meeting development policy objectives (see Box 1 below for expanded definitions).

6. **This paper is structured into the following seven sections**:

i) **Introduction**, which covers background and key definitions;

ii) **Fiduciary and Development Risks**, which quantifies and describes the levels of inherent systemic fiduciary and development risks associated with Afghan PFM systems, now and in the past;

iii) **Trade-offs between Fiduciary and Development Risks – Donor Practices**, which reviews the practices of donors in their role in reducing exposures to fiduciary and development risks;

iv) **Assessment of the Risk of Corruption**, which reviews progress at reducing the risk of corruption in the public sector;

v) **Financial Impact of Risks**, which quantifies the relative importance of systemic risks in terms of the possible cost of risks materialising;

vi) **Cost-Effectiveness of Fiduciary Risk Reduction Efforts**, which provides an assessment of how much investment has occurred for PFM system strengthening and how effective that investment has been over time; and

vii) **Next steps,** which provides a set of immediate actions to take forward this work to its conclusion – a new, credible and implementable PFM reform plan for the new Government.

Box 1. Defining Key Risks

Fiduciary risk is the risk that aid or government funds: i) are used for unauthorized purposes; ii) do not achieve value for money; or ii) are not properly accounted for. The realisation of fiduciary risk can be due to a variety of factors, including: lack of capacity; inappropriate procedures and systems; weak competencies or knowledge; bureaucratic inefficiency; active corruption; and or weak or absent laws and enforcement. Perceptions of fiduciary risk can be influenced by expert opinion or an evidence based quantification of fiduciary risk.

Development risk is the risk that development assistance or government/agency resources will not achieve results – particularly development objectives and long term goals including economic growth and poverty reduction - and enabling objectives such as reform and capacity development. Development risk is influenced by the level of administrative burden placed on governments /agencies by donors as well as compliance costs associated with complex donor procedures that do not match technical capacities of individuals and institutions. There is a position that capacity development and reform can be better supported by appropriate use of various country system components. The idea is centred on the principle that "to improve a system you should use the system". Perceptions of development risk can be influenced by expert opinion or an evidence based quantification of development risk.

Sovereign financial risk is the risk that a loan will not be repaid in full or on time. It is a lending risk and is assessed differently through fiscal and debt sustainability analysis and other tools. Credit rating agencies constantly form and modify opinions on a Government's credit worthiness based on evidence (e.g. Article IV consultation reports, World Bank reviews and publications and Government economic and fiscal reports), media reports, and information gained through their network of sources and their own analysis. Higher assessed risks by these agencies may result in an increase to the cost of borrowing for the country, the extent to which is subject to other factors, including market reactions, though it is more likely if loans are directly linked to credit rating. Management of sovereign risk is handled differently to fiduciary risk management, though good management of both risks mitigate both.

Reputation risk is the risk that perceptions of poor management of funds or poor levels of development effectiveness (whether real or otherwise) will have adverse consequences. Reputation risk applies to donors, governments and agencies. In terms of donors, adverse consequences include: i) deterioration in the level of support for foreign aid by tax payers, central agencies, members of parliament, development ministers and cabinet; ii) criticism of aid management; and iii) deterioration in diplomatic relations with a partner country and international finance institutions. In terms of country governments, reputation risk is relevant as they are ultimately accountable to their citizens for the efficient and effective use of all national resources. Reputation risk can influence sovereign risk and perceptions of fiduciary and development risk. For agencies, adverse consequences include loss of management control and additional administrative burdens arising from heightened external scrutiny and criticisms at multiple levels.

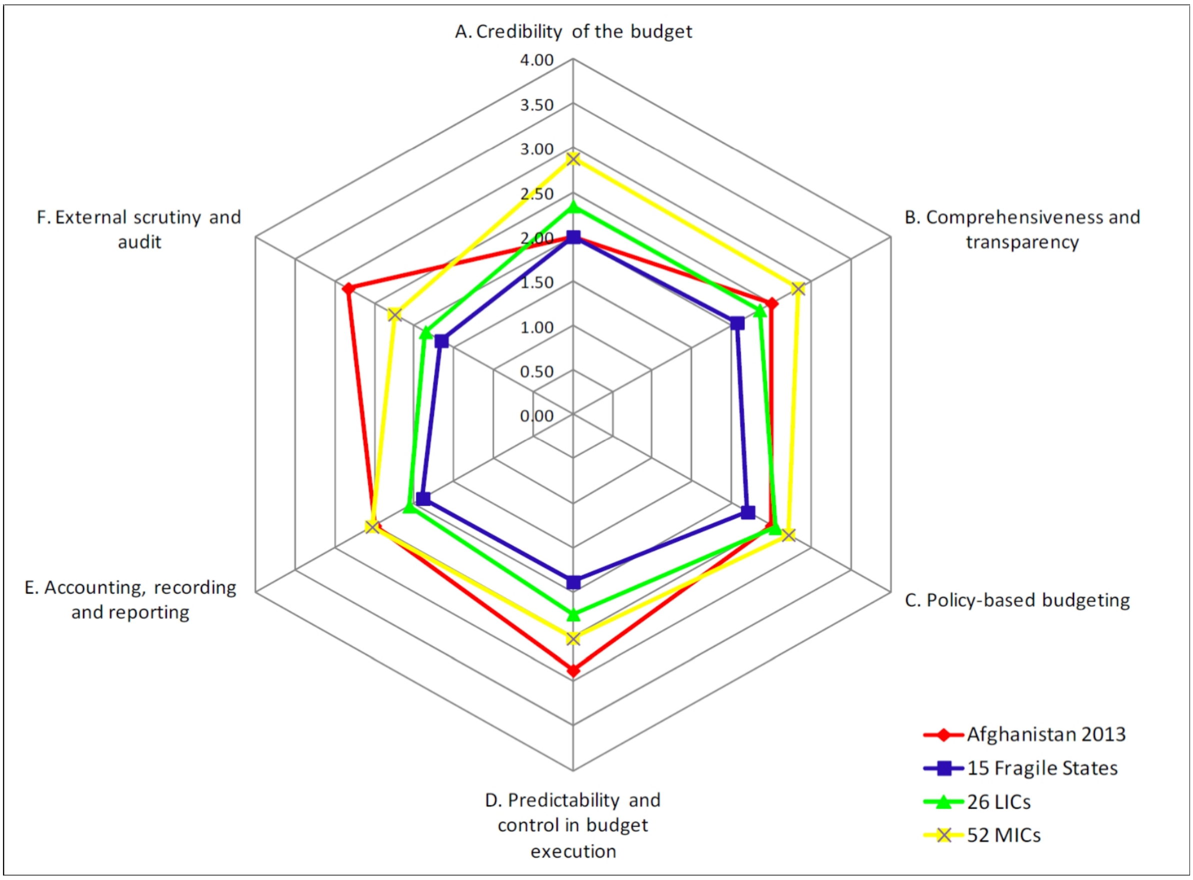
Political Risk (or geopolitical risk) generally refers to difficulties agencies, firms and/or governments may face as a result of political decisions or "any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives." Political risks are hard to quantify due limited sample sizes or case studies when discussing an individual nation, though certain risk rating agencies attempt this.

Drawn from Shand, 2005[xv] and for political risk: DiPiazza and Bremmer, 2006[xvi]

2. FIDUCIARY AND DEVELOPMENT RISKS

7. **Afghanistan's Public Financial Management (PFM) Systems are relatively strong.** In 2013 the World Bank reported that **"**Afghanistan's PEFA scores are better than the average of 15 fragile states (except for the Credibility of the Budget, where it is on par)… and … outperforms 27 Low Income Countries (LICs) on four dimensions (except for the Credibility of the Budget, and Policy-based Budgeting, where it is on par) … and … compared to the average of 51 Middle Income Countries (MICs), Afghanistan (is) better on two dimensions, is on par for one dimension, and scores lower on three dimensions" [xvii] (see Figure 1 and Attachment C: Raw PEFA Plus Scores – unadjusted for risk importance on page 61).

Figure 1. International Comparisons in PEFA Scores

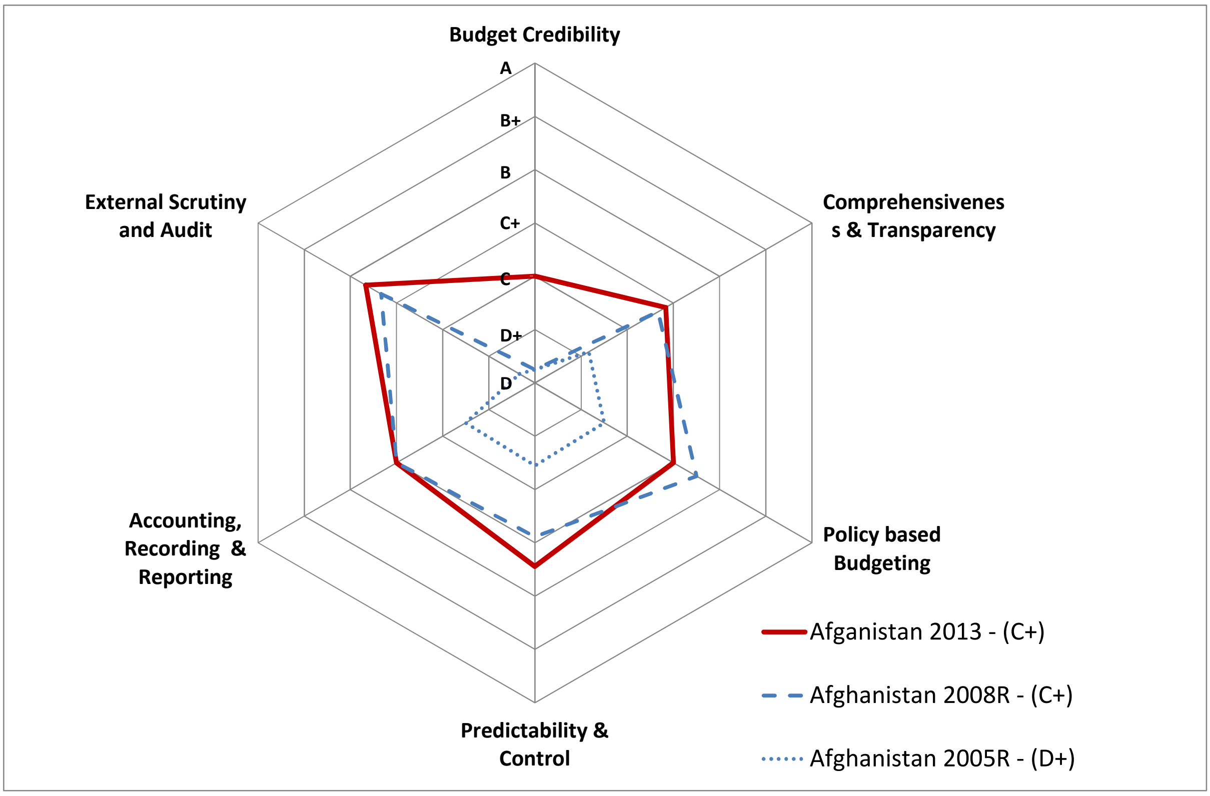


Source: World Bank 2013[xvii]

8. **Afghanistan's PFM Systems have improved significantly over time – quickly at first but then the speed of success slowed.** Figure 2 and Figure 3 reveals the rapid improvements in PEFA scores between 2005 and 2008 and the changes achieved between 2008 and 2013. In addition, while the PEFA framework did not exist at that time, expert opinion assessed PEFA scores for 2002 and prior to be "D" on average.

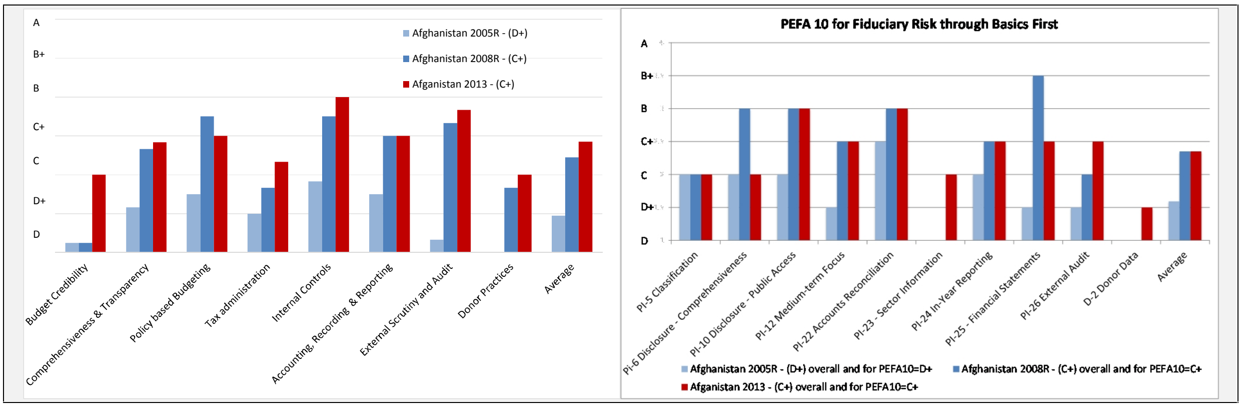
9. **The overall speed of reform reveals a commitment to reform** by leaders and officials within the Ministry of Finance (MoF) as well as Afghanistan's development financing partners. The speed of success in the early years has been compared by some experts to be at world record rates, though formal assessments have yet to be fully quantified.

Figure 2. PEFA Trends 2005 to 2013 – in PEFA Thematic Space



10. **Both the Government and development partners are concerned about fiduciary risk** as higher risks are linked to greater economic inefficiency, poor value for money, macroeconomic and political instability and weak legitimacy of the state. Moreover, development partners also have additional concerns due to the need to be accountable to their governments and tax payers back home.

Figure 3. PEFA Trends 2005 to 2013 – PEFA Themes and PEFA 10

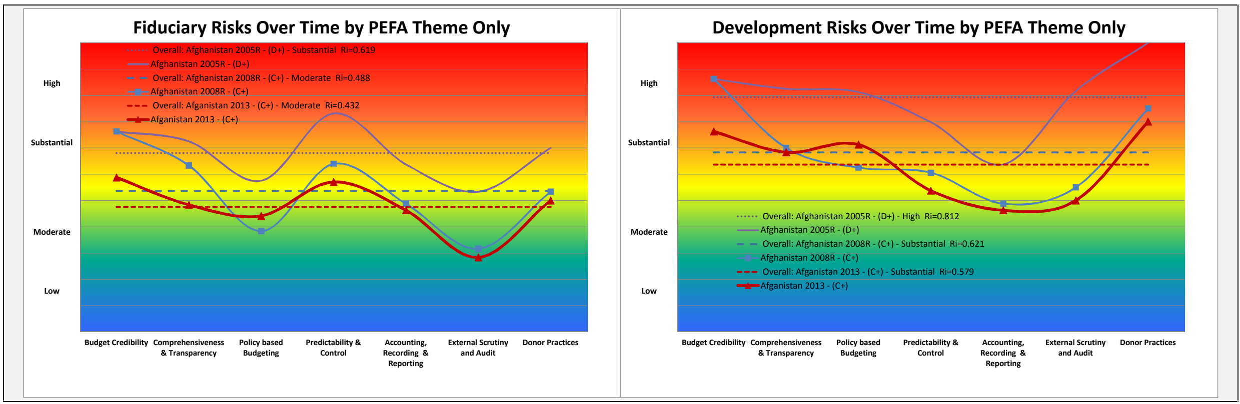


11. **There are different ways to measure and quantify systemic fiduciary risks emerging as a result of weaknesses in PFM systems.** One way is a simple expert opinion of PEFA results. Another way is to weight PEFA scores for fiduciary risk factors, in recognition that some PEFA indictors are more important for fiduciary risk than others (e.g. bank reconciliations are more important for fiduciary risk compared to medium term budgeting, which is more important for development risk). A third approach takes a subset of PEFA indicators as a proxy for fiduciary risks – this approach is the PEFA-10 method[xviii], based on the idea of "basics first in accounting control". A fourth approach first used in 2009[vi] is the PEFA-plus approach, which expands the PEFA indicator set and applies fiduciary risk factors to quantify risk scores (see also Attachment O: Methodology for Quantifying Risk on page 104).

12. **Under the PEFA-10 basics first approach, fiduciary risk reduction was assessed as quick between 2005 and 2008 but risk reductions effectively stopped afterwards** – but did not deteriorate - between 2008 and 2013. Simple average PEFA-10 scores moved from D+ to C+ between 2005 and 2008, and remained C+ up to 2013. Figure 3 reveals the PEFA thematic and PEFA-10 scores.

13. **Under the PEFA risk factoring approach, fiduciary risk reduction was also quick between 2005 and 2008.** Fiduciary risk reduction success only slowed down between 2008 and 2013, rather than stopping as measured by the PEFA-10 approach. Figure 4 reveals that fiduciary risks under this approach fell from substantial in 2004 to moderate in 2013. It also shows how after applying fiduciary and development risk factors to PEFA scores that development risk profiles were relatively higher than fiduciary risk profiles, but development risk reduction was relatively greater between 2005 and 2008 compared to fiduciary risk reduction. Development risks, however, remained substantial but were reduced from high as quantified for 2005.

Figure 4. Fiduciary and Development Risk Trends 2005 to 2013 – in PEFA Thematic Space



14. **Under the PEFA-plus risk factoring approach, systemic fiduciary risk reduction was also quick between 2005 and 2008 and slowed down between 2008 and 2013.** The highest risks were associated with weaknesses in systems for non-tax revenue, anti-corruption, procurement, banking supervision and taxation (see Figure 5). Similar results were found for development risks though these risks were calculated to be relatively and significantly higher than fiduciary risks (see Figure 6 and Figure 7).

Figure 5. Systemic Fiduciary Risks 2005 to 2013

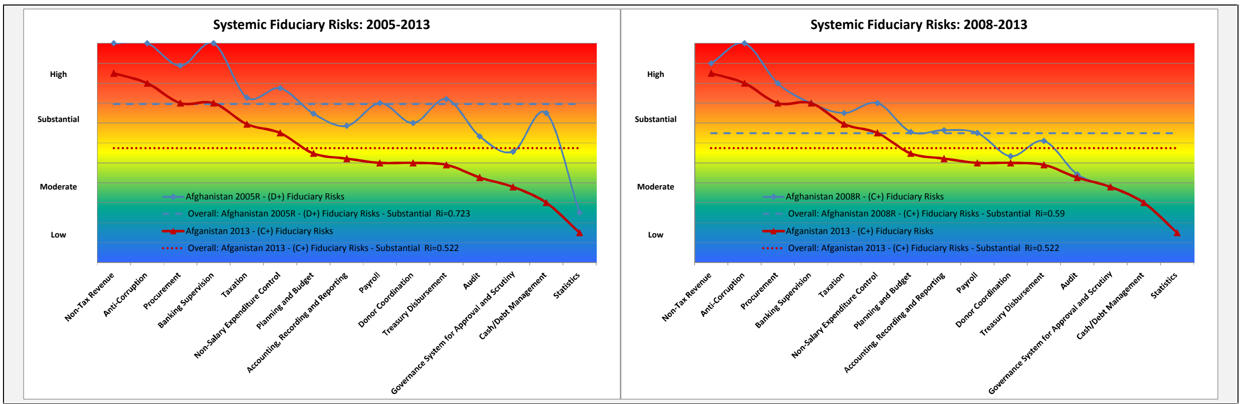


Figure 6. Systemic Development Risks 2005 to 2013

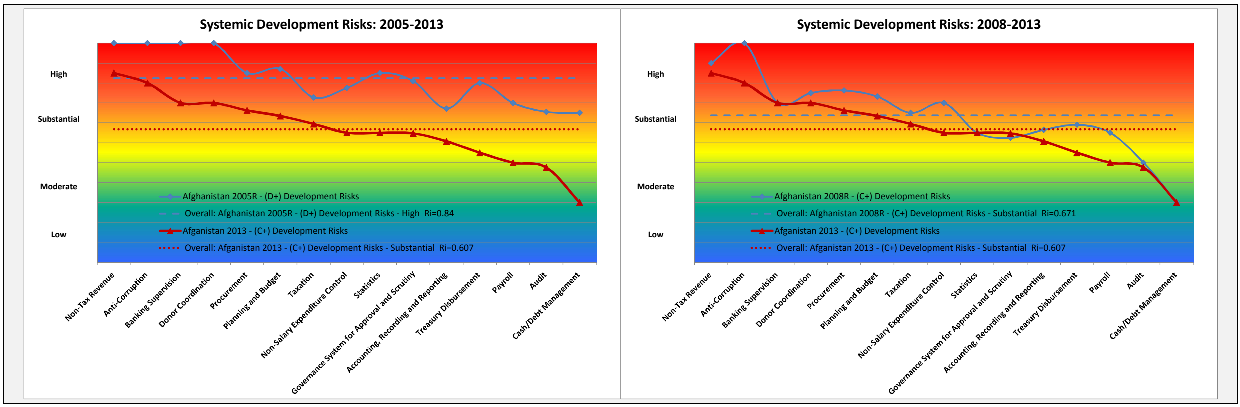
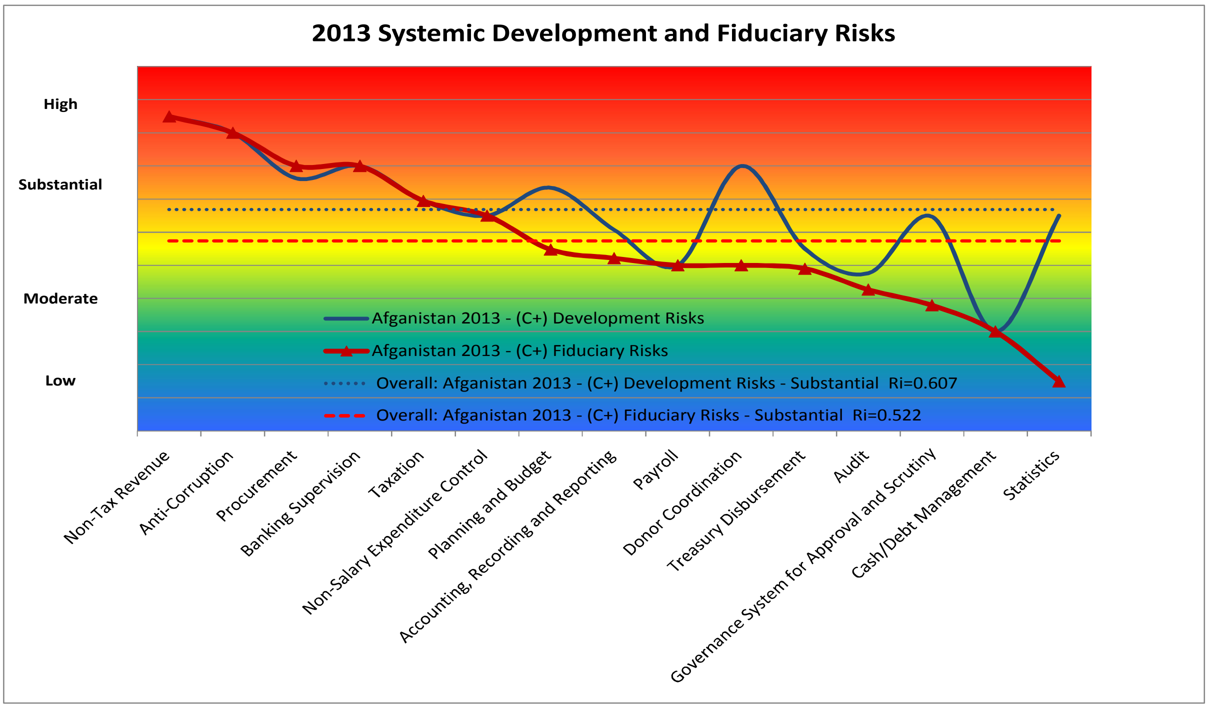


Figure 7. Systemic Fiduciary and Development Risks 2013



2.1 Strengths and Weaknesses

15. **Afghanistan's PFM system has a number of strengths, but many weaknesses also remain.** Figure 8 summarises key strengths against PEFA themes, while Figure 9 summarises some of the remaining weaknesses that contribute to ongoing exposures to avoidable fiduciary risks.

16. **The following sections provide an outline of the key systemic weaknesses that will need to be addressed** over the coming years in order to secure quantifiable reductions in fiduciary risk. It should be noted that while these weaknesses are grouped by PEFA theme, reform plans to address these will need to be grouped by teams – those organisational units responsible for implementation – and then assessed for technical and political feasibility[xix] including on impact, and risk of failure[1]. An example of such a political and technical feasibility assessment against a set of reform options is provided at Attachment H: Assessing Technical and Political Feasibilities of Reform Options on page 87.

[1] – In accordance with PEFA guidance from Jack Diamond on PFM reform programming and sequencing.

Figure 8. Afghan PFM System Strengths – PEFA themes

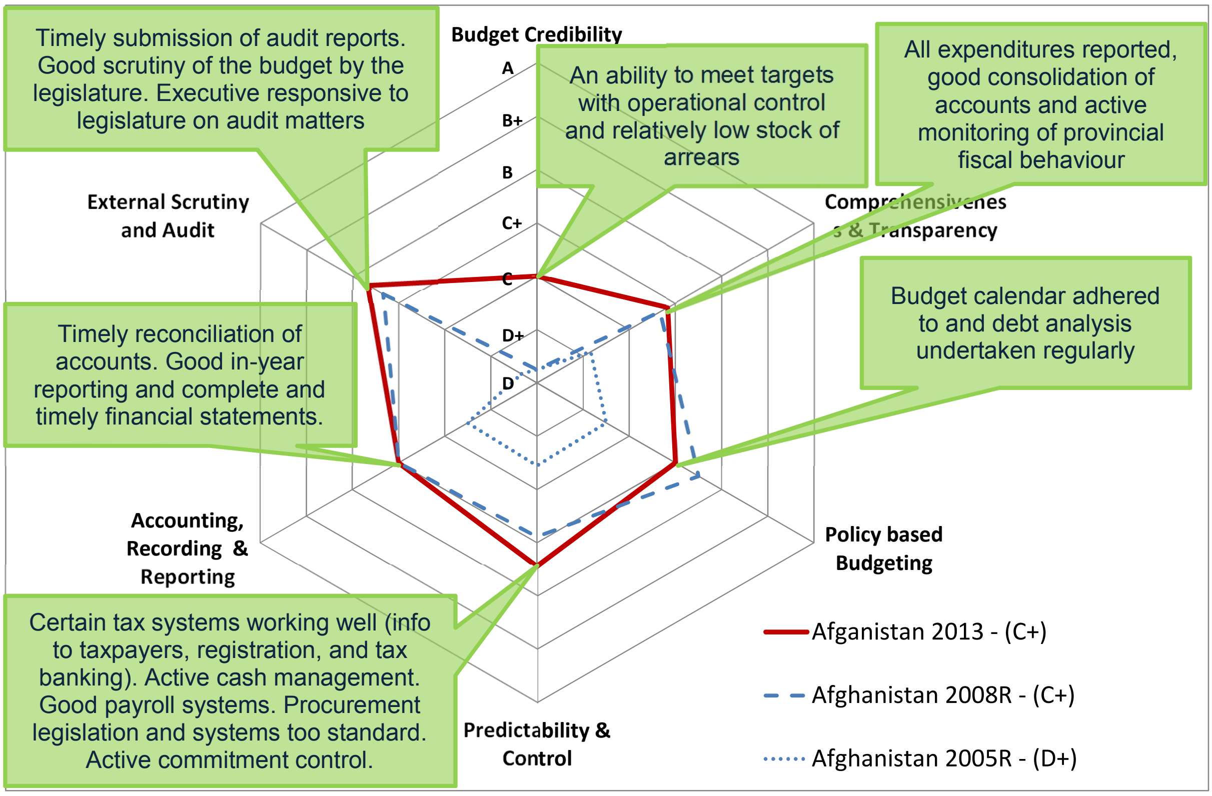
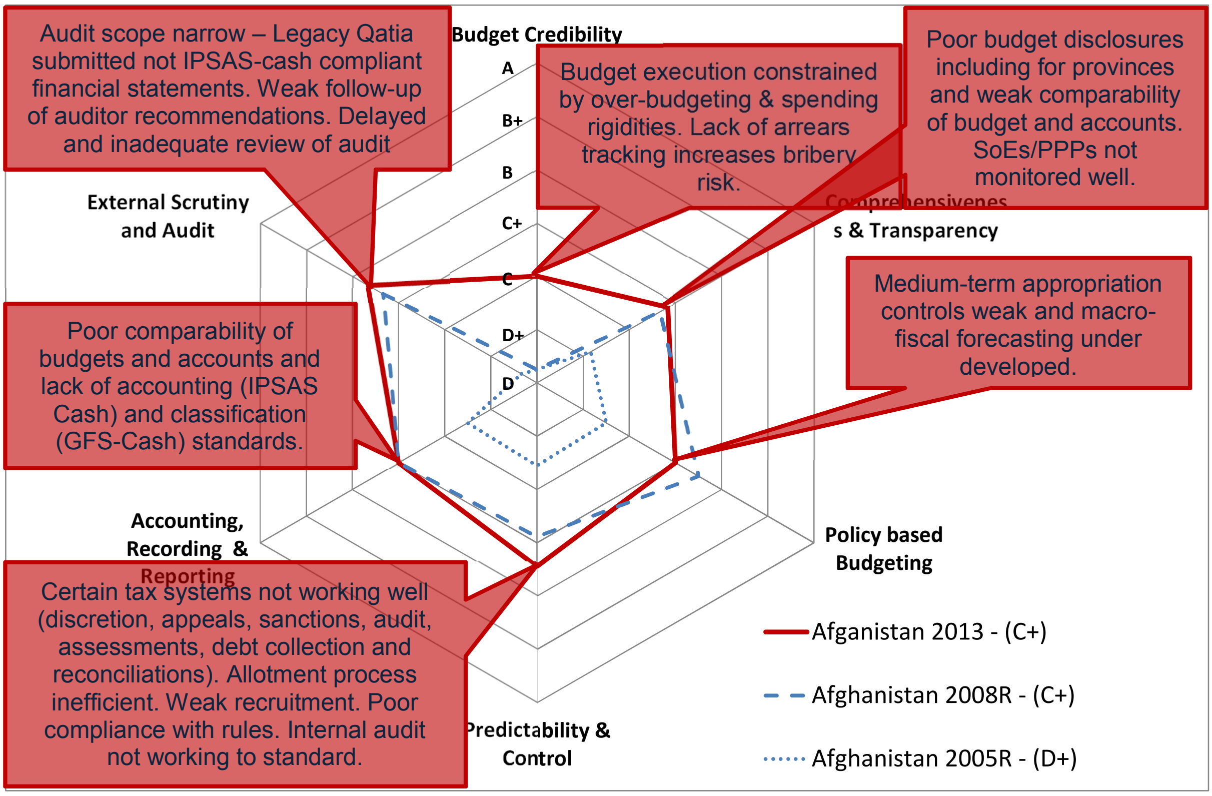


Figure 9. Afghan PFM System Weaknesses – PEFA themes



2.2 Development Performance and Fiduciary Risk

17. **This section reviews key issues that are affecting development performance and levels of fiduciary risks**. It opens with a review of the credibility – or the believability – of the Afghan budget and provides an informed opinion of the causes of weak credibility. The section then provides some more detail of certain sub-systems of the Afghan PFM system. The following chapters then reviews corruption risks, then the financial impact of fiduciary risks, then assessment of the cost-effectiveness of reform efforts is provided, followed lastly with some recommendations for immediate next steps.

Weak Budget Credibility Caused by Over-budgeting and Rigidities in Controls

Table 1. Fiduciary Risks Associated with Budget Credibility: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	**Aggregate [sector] expenditure out-turn compared to original approved budget**	**S**	**S**	**M**
PI-2	**Composition of [sector] expenditure out-turn compared to original approved budget**	**S**	**S**	**S**
	(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	S	S	S
	(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	S	S	L
PI-3	**Aggregate [sector specific non-tax] revenue out-turn compared to original approved budget**	**S**	**S**	**M**
PI-4	**Stock and monitoring of [sector] expenditure payment arrears**	**H**	**H**	**S**
	(i) Stock of expenditure payment arrears [in the sector] (as a % of actual total expenditure for the corresponding fiscal year) & any recent change in the stock.	S	S	L
	(ii) Availability of data for monitoring the stock of expenditure payment arrears [in the sector]	H	H	S

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

Table 2. Development Risks Associated with Budget Credibility: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	**Aggregate [sector] expenditure out-turn compared to original approved budget**	**H**	**H**	**S**
PI-2	**Composition of [sector] expenditure out-turn compared to original approved budget**	**H**	**H**	**H**
	(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	H	H	H
	(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	H	H	L
PI-3	**Aggregate [sector specific non-tax] revenue out-turn compared to original approved budget**	**S**	**S**	**M**
PI-4	**Stock and monitoring of [sector] expenditure payment arrears**	**H**	**H**	**S**
	(i) Stock of expenditure payment arrears [in the sector] (as a % of actual total expenditure for the corresponding fiscal year) & any recent change in the stock.	S	S	L
	(ii) Availability of data for monitoring the stock of expenditure payment arrears [in the sector]	H	H	S

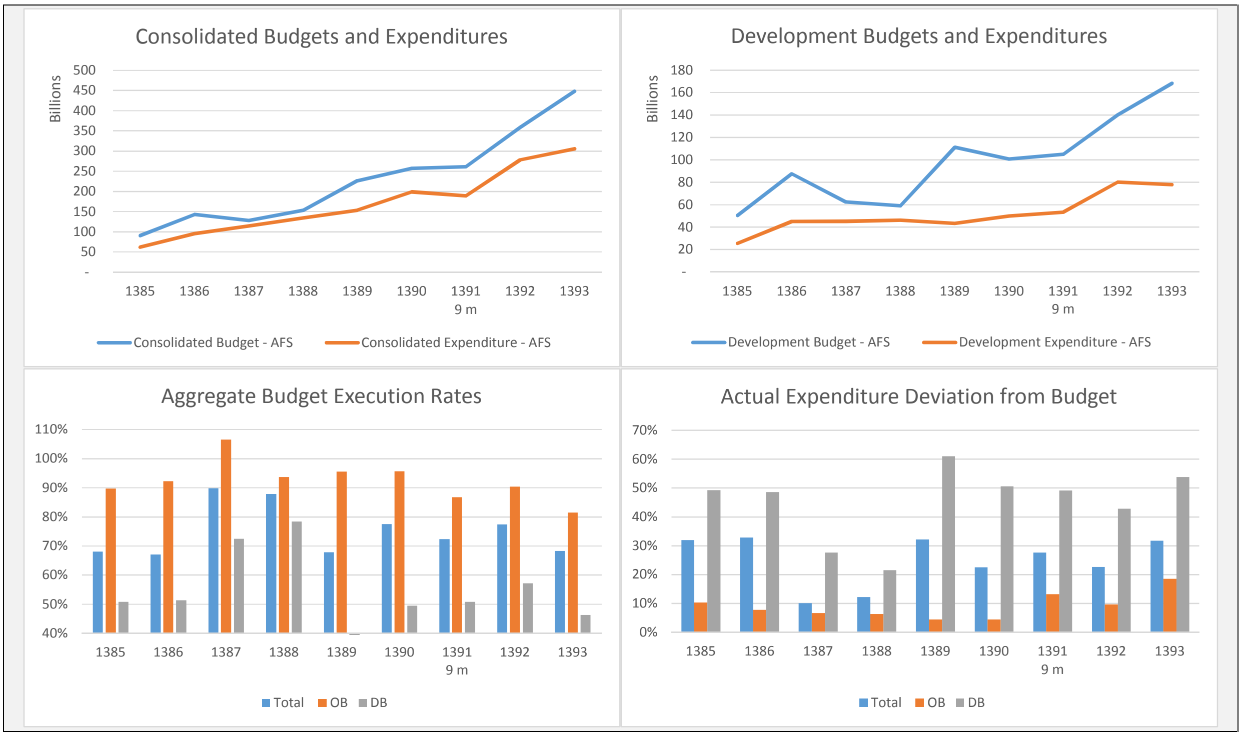
H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

18. **The Afghan budget is not yet credible enough.** This means that it is difficult for people to believe in the budget because the Government cannot hit its high level targets. The rating of budget credibility under PEFA is associated with a moderate fiduciary risk rating (see Table 1) and substantial development risk rating: a believable budget is good for development prospects (see Table 2 and Attachment B: Development Risk Ratings on page 57).

19. **The budget has been revealed every year to be an inaccurate predictor of actual expenditure** – in terms of size and purpose (see Attachment D: Budget Deviation Trends by Administrative Unit on page 69 and Attachment E: Fiscal Data: 1385-1393 on page 72). When this occurs aggregate fiscal discipline is said to be weak. Or in other words the administration is unable to hit its fiscal targets – such as for revenue, expenditures and fiscal deficits. When the annual budget is seriously and consistently inaccurate, the budget process can be considered to be effectively a waste of time – as the previous year's budget would be just as useful and probably a more accurate predictor of final spending outcomes.

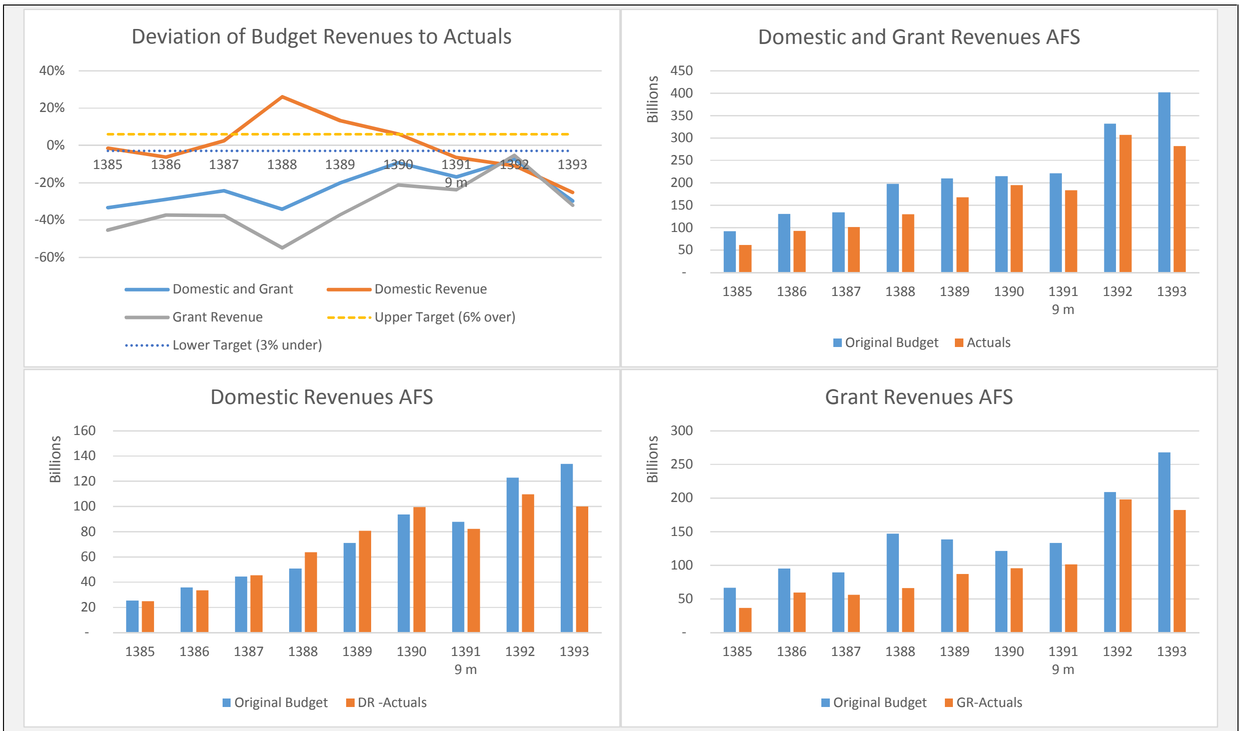
20. **The classic indicator of a non-credible budget is poor budget execution performance**. Figure 10 reveals aggregate budget execution performance between 1385 and 1393 for consolidated budgets, operational and development budgets. Figure 27 on page 53 in the attachments also demonstrates that development budgets are also not believable for individual spending units, implying that there is a lot of in-year shifting of resourcing occurring between spending units.

Figure 10. Budget Execution Performance 1385-1393



Source: Published Financial Statements and budget papers

Figure 11. Revenue Forecasting Performance 1385-1393



Source: Published Financial Statements and budget papers

21. **Another indicator of a non-credible budget is poor revenue forecasting performance**. Figure 11 reveals that grant revenue forecasting performance has been very weak through the period between 1385 and 1393, thought it was steadily reaching target levels up to 1392, but then fell away. It should be noted that grant revenue forecasting performance is a function of expenditure budgeting performance in that grant revenues only materialise if there is a need for cash to make expenditures – i.e. if expenditure forecasts are realistic. Domestic revenue forecast was overly prudential in 1388 but steadily fell afterwards moving to non-prudential forecasts in 1391, with actual revenue performance coming significantly under forecasts. In recent years it has been argued that revenue forecasts in the budget are being treated as targets to prompt greater revenue collection, leading to an upwards bias, rather than a prudential forecast in order to deliver on fiscal balance targets.

22. **Good budget credibility is a result** and it typically emerges when various systems work well together. Currently too many systems are not working well together to deliver accurate and believable budgets. Poor budget credibility scores under PEFA, and poor budget execution performance generally, are a result of weak systems, which are often captured by weak PEFA scores associated with transparency, medium term budgeting, tax systems, expenditure control and accounting systems, and systems for oversight.

23. **Analysis has revealed that continual poor budget execution performance in Afghanistan is caused by two fundamental problems**: i) over-budgeting on the expenditure side; and ii) rigidities in key spending controls.

Over-Budgeting

24. **The practice of over-budgeting** is a result of systemic factors including donor induced incentives and weaknesses in fiscal discipline. The most important causes of over-budgeting in Afghanistan are:

- **The dominance of multi-year financing grants** without a system to track maturities and establish annual and multi-year budget disciplines;
- **Disorderly internal budget processes** leading to non-strategic decision making;
- **A high tolerance for mediocrity – due to a reluctance to say no** to any sort of financial assistance;
- **Fragmented development and operating budgets** and poor comparability of budgets and accounts;
- **Ineffective allotment and commitment process** for cash control process and no effective process to manage annual budget estimates;
- **Under-utilisation of ex-post controls (after a transaction) and over reliance on ex-ante controls** (before a transaction occurs);
- **Lack of line agency control of AFMIS functions** (particularly allotment and commitment) resulting in a multiplicity of accounting systems and perverse incentives;
- **A long history of not having any real cash constraints** meaning that over-budgeting had no serious consequences;
- **A policy of balanced budgeting** – meaning that cash reserves could be built up over time and not credibly used to finance budget deficits; only in-year revenues could finance budget expenditures (with appropriation carry-forwards often being recorded as a revenue item rather than a cash balance financing item – if cash was available but not spent);
- **Growing budgets too quickly** – constraining absorptive capacities of spending units;
- **Continuous improvement cycle not in place or very weak** – this is the system of accountability where Minsters defend their promises and the results of their ministries – the systems that hold Ministers accountable for their performance; and

- **Pro-active involvement by some members of parliament** in development budget preparation and execution – compromising the ability of Cabinet to set and implement a coherent budget strategy.

Box 2. Systems of Annual Appropriation

"Cash based appropriation systems", are by far the most common, where appropriations are generally time bound and correspond to fiscal years[2]. The cash based element of the appropriation either limits cash payments or payments due in year. In these systems, estimates of carry-over[3] are required to be estimated during the budget process for inclusion in the following year's appropriations. In some countries, the use of trust accounts reduces the incentive to estimate carryovers and allows contracts to extend over fiscal years.

"Obligation appropriation systems" are those systems where rights to enter into contracts are not time-bound. Primary appropriations are often not allocated by administrative and economic category. Apportionments (reservation for purpose), obligations (contracts), and cash expenditures are estimated for current budget year. Apportionments, obligations (contracts), cash expenditures and appropriation balances are also tracked for the remaining multi-year period as originally authorised (carryovers are not usually needed as appropriation, obligation and cash balances are automatic). This system is not used frequently around the world. Financial management information systems in obligation systems have many different features than traditional cash based appropriation systems as additional dimensions of commitment need to be tracked. This system is used by certain donors for program/project management (e.g. the World Bank) and are inherited by aid dependent countries since grants from these donors constitute a "special multi-year appropriation".

"*Accrual appropriation system"* is another less common system, followed by New Zealand, Australia, United Kingdom and Denmark. Accrual-based appropriations cover the full costs of operations and include appropriations for increases in liabilities and decreases in assets. Full costs are all the goods and services consumed, as opposed to acquired, over a given period. Appropriations for depreciation are therefore provided. Accrual appropriation systems should only be introduced after very high levels of Public Financial Management (PFM) capacity has been demonstrated for sustained period. Demonstrable high level capacity for input budgeting and cash accounting should precede accrual budgeting, appropriation and accounting. PEFA scores of "A" for almost all dimensions would be an indicator when a country is ready for accrual appropriation.

25. **The dominance of multi-year financing grants supported by unrealistic costings and timeframes.** Multi-year funding approvals require special systems to track maturities, allocations over-time, and funding balances.

26. **There are two primary systems in the world that are designed to deal with multi-year funding approvals**: i) Medium-term Appropriation Control Systems (MACS) where annual forecasts of future cash requirements are made, with the date of the lapsing of the appropriation being tracked (often also called a Medium Term Expenditure Framework- MTEF); or ii) obligation system for multi-year appropriation control under (see Box 2).

27. **When there is an absence of adequate systems to manage multi-year appropriations, there are often strong incentives to over-estimate** annual disbursements and project costs and under estimate time requirements to get things done (e.g. most multi-year grant agreements always get

[2] There are often special appropriation arrangements that provide for multi-year appropriations or appropriations determined by legislation other than the annual budget law (e.g. payment of social security benefits if eligibility criteria are met).

[3] Carryovers can theoretically be either unspent amounts but usually refer to obligated funds where a valid authorization exists for a multi-year project. Carryovers of certain unspent amounts can occur if there is a policy of rewarding efficiency in service delivery rather than penalizing entities that produce desired outputs more efficiently.

extend passed their original time frame – not because they were successful, but because the funds had not been spent in time). MTEFs are recommended to handle multi-year financing as they also deliver many other benefits linked to medium term strategy setting and crisis flagging (see Box 3).

28. **Disorderly budget processes, in aggregate and internal to departments, can lead to acceptance of annual project estimates without proper scrutiny**. It has been consistently reported by government officials that almost all budget year estimates of non-discretionary donor financed projects are accepted by recipients without debate including on needs or alternative use of cash resources. Moreover, unutilised carry forward amounts almost universally get rolled forward in full in to the following budget year with no explanation to why, nor an assessment if a component of the carry forward should go into forward years, or if an extension of grant period is required (before it is too late). In addition, carryovers have often been recorded as a revenue item (rather than recorded as a cash balance financing source – if cash was available but not used). Many projects have had their complete expenditure budgets rolled over for many years.

Box 3. Case Study: The New Way to Establish a PEFA-Compliant MTEF is the Old Way

A multi-year perspective to budgeting is now recognised as crucial to more effectively linking policy, planning and budgeting. However, as yet there is no consensus on the definition of Medium Term Expenditure Frameworks (see Holmes 2009[xx]). Consequently, MTEFs go by many different names and can have different objectives depending on country contexts.

A Medium Term Expenditure Framework is defined here as a conceptual framework "for supporting a strategic and policy based approach to budget preparation" (Holmes 2003[xxi]). The key distinguishing feature of an MTEF is the integration of policy, planning and budgeting within a medium term perspective.

Medium term approaches to budgeting through MTEFs have been adopted in response to: "a realisation that the annual approach to budget making actually undermines budgetary performance, contributing to fiscal instability and, perhaps even more fundamentally, to resource misallocation and the inefficient and ineffective use of resources." (Holmes 2009[xx]).

Implementing Medium Term Expenditure Frameworks (MTEFs) or Medium-term Appropriation Control Systems (MACS) since the turn of the century has been a long, expensive and mostly ineffective exercise. The first approach was the big-bang approach, which meant lots of resources were applied to get macro-fiscal frameworks and complex information managements systems in place. The more recent approach is the very slow and steady method, where basic fiscal forecasting capacity is established first, followed by more advance macro-fiscal forecasting, followed by more detailed budget strategy and budget ceilings setting processes.

In Cook Islands a PEFA compliant MACS was established quickly and cheaply – simply by following the way the original MTEF was invented – by setting up a good transparent process first, then focusing on improving quality of analytics over time. The modern MTEF was invented and successfully used in the 1970s in Australia. It started with the use of internal fiscal forecasts of revenue and expenditures. Political events then allowed these internal forecasts to transform into baselines and published as estimates for annual appropriations – and reflected as government promises. This then allowed incremental budgeting to extend from one year to multiple years. This allowed the Prime Minster to request only certain departments to bring forward multi-year budget submissions during the annual budget process – those that were required to bring forward new policy proposals in directed areas (and up to a certain value) – and those that were required to bring in savings or additional revenues. Once Cabinet decided on the proposals, those multi-year estimates were transparently locked-in to the medium term appropriation baselines. Forward years were rolled over to new budget years with differences fully explained in budget papers – those differences caused by an estimate variation (e.g. due to differences in estimates of the effects of inflation and key cost drivers like number of beneficiaries) and those as a result of a new policy decision by Government (e.g. a new tax policy or a decision to buy some new fighter jets). Then on a rolling basis, the medium term appropriation baselines (forward year estimates), were reviewed for costs and applicability against the overarching policy strategy of the department – costing the sector strategies or rather costing of agency policies. During that period, the fiscal forecasting methods advanced to more complex macro-fiscal simulation models.

The Cook Islands copied this old and original approach to establishing an MTEF, which also happens to be PEFA compliant as revealed here:

i) A database was established to track three forward year estimates that become the baselines for budget appropriations for departments – these are the budget estimate anchors (*PEFA PI12i "A": Forecasts (of appropriations) of fiscal aggregates (on the basis of main categories of economic and functional/ sector classification) are prepared for at least three years on a rolling annual basis*);

ii) The MoF developed a separate but simple macro-fiscal forecasting tool that tracks fiscal pressures and opportunities that can be used to run policy simulations and provide high and low case scenarios for cabinet briefings (*PEFA PI12i "A": Forecasts (of different fiscal realities) of fiscal aggregates (on the basis of main categories of economic and functional/ sector classification) are prepared for at least three years on a rolling annual basis*);

iii) The President decides on which ministries bring forward budget submissions and the terms of such submissions, based on advice from the MoF and Cabinet discussion (*PEFA PI 11-ii "A" A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the distribution of the circular to MDAs*). The ceilings are not communicated to departments – but the effects of the ceilings are (i.e. those ministries that are targeted for a budget increase, and those that targeted for a cut);

iv) Other ministries simply get their next forward year baseline adjusted for an estimates variation (mostly an inflation or agreed cost-driver adjustment);

***v*) All budget submissions require full costing of fiscal impact of new policy proposals over the medium term** – with annual estimates, with costings to be independently verified as accurate by the MoF (*PEFA PI12-iii "A": Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts. PEFA PI12-iv "A": Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector*);

***vi*) If agreed by Cabinet, the baselines are adjusted in explained in the budget papers** (*PEFA PI 12-i "A": Links between multi-year and subsequent setting of annual budget ceilings are clear and differences explained*); and

vii) Pricing (or forward year estimates) reviews of Ministry baselines occur on a rolling basis against a plan determined by MoF (*PEFA PI12-iii "A": Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts*).

It should be noted, that the above system can only really work if current and development budgets are unified and not fragmented. Moreover, it only really works properly if the budget is considered as a whole by Cabinet rather than separate processes and by separate authorities (e.g. Cabinet on one day, donors on another).

29. **A high tolerance for mediocrity may well be partly driven by reluctance to say no to any sort of assistance given the heavy reliance on aid funding for the budget.** The previous paragraph described how Government officials have minimal incentives to argue with a donor wanting to provide financial resources for a particular program. "Something is better than nothing" is often the reasons put forward by officials. Moreover, the overarching national development plans are so broad that almost any donor project can be considered in-line with national priorities. Every official expressed the view that if they had more control over resource allocations, spending would be allocated to different and higher priority areas through more cost-effective means.

30. **The tolerance for mediocrity also extends to Technical Assistance (TA).** Officials explained that more often than not, the Ministry had no or only a limited say in the hiring and firing of consultants

and advisers. Moreover, the system to remove poor performing advisers was in the primary control of the donor. This meant that under-performing advisers could remain in place for lengthy periods of time. With under-performing TA comes a lack of robust internal assessment of performance and improved problem solving, all contributing to the over-budgeting problem.

31. **Fragmented budgets and poor comparability of budgets and accounts makes things difficult** for decision makers to make good and efficient resource allocation decisions. When operating and development budgets are separate and use different budget classification systems, it is difficult for Cabinet to assess the budget as a whole. For example, it is impossible for an analyst to know how much in aggregate is going to salaries, goods and services and capital. This is because the development budget only presents an aggregated number for a project – economic classifications are not used, even though they are readily reported in the financial statements and tracked on the accounting system. Poor comparability of budgets and accounts means that it is difficult for cabinet (or the legislature) to pick up the budget and compare it to annual reports (and financial statements) – or in other words to compare promises with actual results. This results in less than optimal scrutiny and performance assessment.

32. **Under-utilization of ex-post controls (after a transaction) and over reliance on ex-ante controls (before a transaction occurs) slows spending and can reduce the quality of spending.** Internal audit is still not functioning well enough. Internal audit is the primary system to correct mistakes and strengthen systems before they become big problems – reportable by the external auditor and discovered by others. The weakness of internal audit is partly a result of the control policy to focus on pre-transaction audit at all stages of the budgeting, commitment, contracting and payment cycle.

33. **Accounting controls managed at the centre are generally associated with ensuring big problems are avoided**: i) appropriations are not breached; ii) the Government does not run out of cash and remains solvent; and iii) spending is in line with promises made to the legislature and consistent with Cabinet decisions.

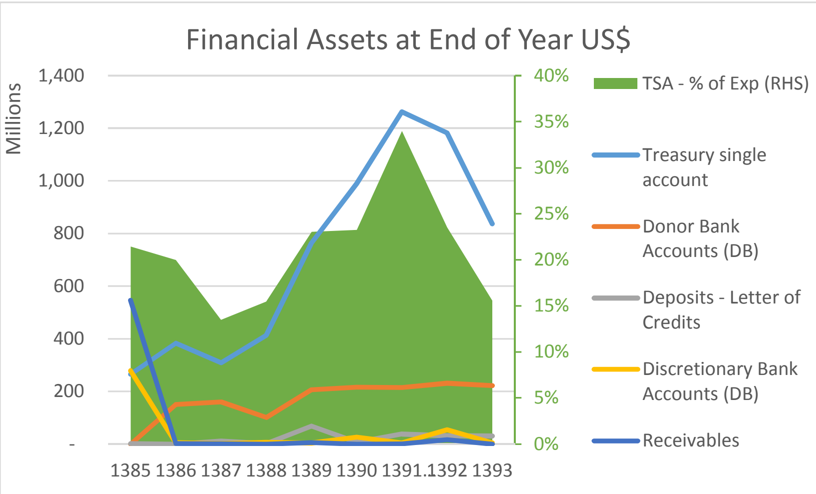
34. **Ex-ante controls in Afghanistan appear cumbersome and ineffective** for the official purpose they were designed (see allotment discussion below as one example). Another example is where procurement controls do not work because money can move and obligations can be entered into without it being on the primary control system - AFMIS. Another example is the lack of controls on arrears – AFMIS does not collect invoice date data, meaning it is difficult to prevent and detect bribery during contract management. Team-based performance management is also not in place, meaning a key ex-poste review system is not working. Arrears data used for PEFA was sourced from specialized surveys 1390 and 1391 (rather than from an AFMIS invoice recording system). Anecdotal reports have been received that serious amounts of arrears have increased due to the cash crisis on the operating budget and the resulting reduction in appropriations through the revocation and allotment process and non-roll-over of appropriations from 2014.

35. **Incentives to over-budget are created when budget and accounting systems are not responsive to the needs of budget holders responsible for implementation.** The lack of control by spending agencies over AFMIS (e.g. allotment and commitment control) has created a system where there are many different budget and accounting and reporting systems being used. Since line agencies have no power to enter allotments, sub-allotments and commitments and manage their budgets and appropriations on AFMIS, they all have developed their own in house budget and accounting systems – some with quite advanced database systems (with even more functionalities than AFMIS – e.g. invoice date is tracked and allotment forms automated for printing for MoF), and some that are more rudimentary based on spreadsheets. Without a responsive information management system to manage budgets and record all types of transactions – providing the means to manage budgets tightly

– the incentives are clear to establish as much flexibility through the budget as possible – or in other words incentives to "over-budget".

36. **Afghanistan has a long history of not being cash constrained** … up until the recent "cash crisis", which followed the drawdown of international forces, rapid reduction of off-budget aid and the consequential deterioration in business and public confidence. The way Afghanistan received aid, meant that any good idea could be financed, effectively without a reduction to someone else's project: Donors just needed to bring forward commitments or draw on the significant underspends/under-disbursements from previous years. This contributed to unrealistic budgets contained in medium term grant agreements and continued during grant management.

Figure 12. End-of Year Financial Assets 1385-1393



Source: Published Financial Statements

37. **There are many ways to reveal the lack of cash constraints in budget setting**. The most obvious is to review the balances of financial assets at the end of fiscal years. Figure 12 above reveals that at one point (the end 1391) cash balances (including TSA, deposits and donor special accounts) amounted to $1.5b, representing 40% of annual cash expenditures.

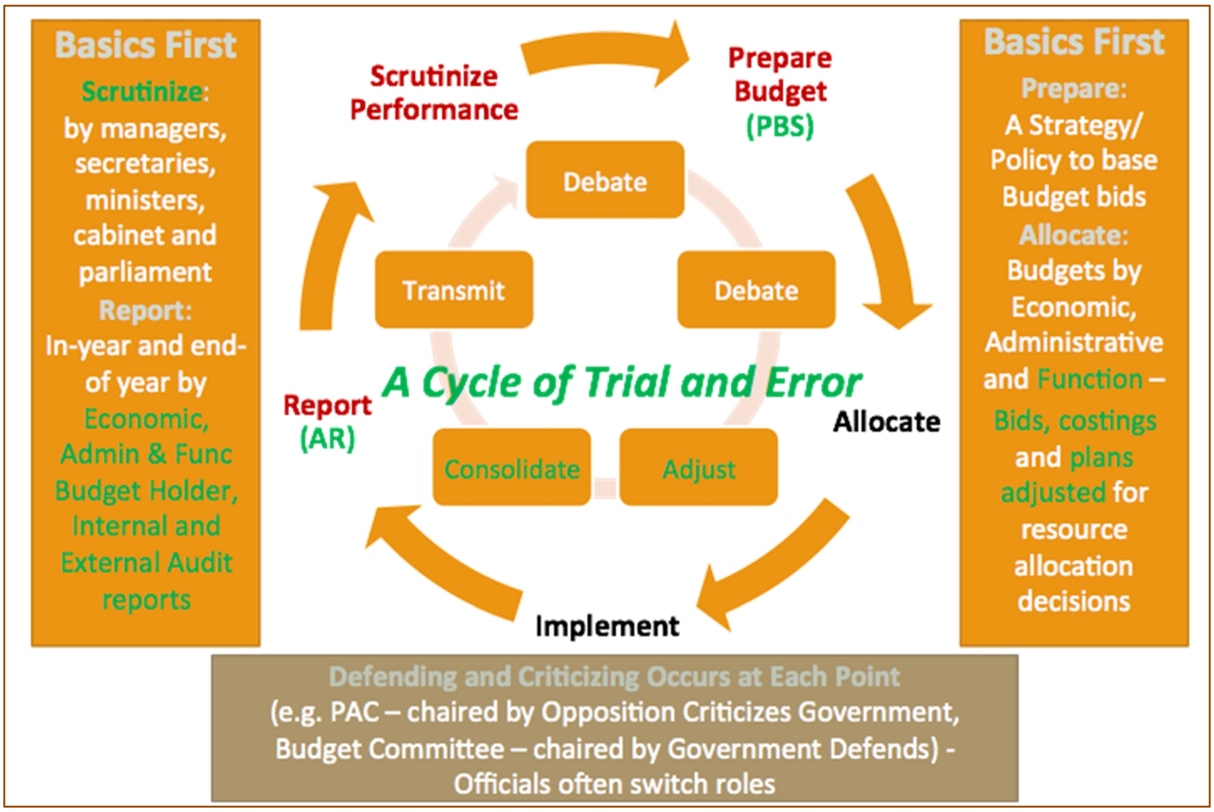
38. **The lack of cash constraints was exacerbated by having a policy of balanced budgets** – rather than a policy of cash reserve financing of budget deficits (i.e. no borrowing to finance budget deficits). A balanced budget policy resulted in ensuring annual revenues forecasts matched expenditure plans. Cash balances were not used to finance annual budgets. This contributed to an accelerated growth in the stock of cash balances. Importantly, it also introduced perverse incentives including creative revenue and expenditure forecasting.

39. **Over budgeting and growth in cash balances was also caused by budgets rising too quickly** for ministries to be able to spend. The speed of budget increases may have hit the absorptive capacity limits of spending ministries (see Figure 10 on page 11). There was a revealed political imperative to solve problems by throwing money at the problem. So instead of applying the standard budget rule of "use it or lose it", which provides the right incentives to spend budgets, poor budget execution performance was often effectively rewarded with increased appropriations – or at least no consequences/cuts for poor performance.

40. **The continuous improvement cycle is not working well enough**– this is the system of accountability where Minsters are made responsible for their performance promises through a "Portfolio Budget Statement" and where they defend their performance in end-of-year Annual Reports (ideally with audit opinion on the reliability of the financial statements of his/her

Ministry/ies). Currently there is only a set of annual budget papers for the whole government. Portfolio budget statements that go along with the whole of government budget papers do not exist. Annual reports on performance at the whole of government level and at ministerial portfolio level also do not exist. This inhibits the continuous improvement cycle – or the budget cycle – from working as intended. Currently, performance reviews are undertaken separately by donors in an ad-hoc fashion and not within the context of the budget cycle. Such donor driven reviews have far less power to improve performance the following year, compared to a government run system of trial and error through the budget cycle (see Figure 13 below).

Figure 13. The Continuous Improvement Cycle



41. **Unrealistic budgeting may also be caused by active involvement by some members of parliament in development budget preparation and during development budget execution.** Such active involvement transforms the budget preparation and budget execution process from one of technical in nature to one that is highly politicized. When the budget is compromised in this way, it also compromises the ability of the cabinet to set and implement a coherent budget strategy through a single budget process. It is common place for Members of Parliament (MPs) to meet openly, regularly and officially with Deputy Minsters to discuss development budget projects – allocations, amendments and priorities. In donor countries, this would appear to be a serious conflict of interest, with strong systems in place to: i) prevent political interference; ii) ensure disclosure of financial interests; and iii) manage apparent conflicts of interest, including systems to recuse when appropriate to do so. However, in Afghanistan and other countries in the region, it is quite normal for MPs to engage with public servants on development budget allocation and contracting matters. Moreover, it is arguably perfectly legal under the Article 91.3 of the Constitution, which appears to provide more authority to legislators compared to Article 90.2 (power to approve the development budget). A constitutional opinion of Article 91.3 of the Constitution was not available at the time of writing. Article 91.3 says:

> *"The House of People shall have the following special authorities: **Decide** on the development programs as well as the state budget"*

Numerous rigidities in spending control systems

42. **Weak budget credibility is also a function of rigidities in the spending control systems**. There are clear and significant rigidities in the following spending control systems:

i. **The allotment (warrant) process** to ensure cash is managed well and appropriations are not breached (at spending unit/appropriation level);

ii. **The reservation of funds for priority and earmarked purposes** (normally secondary spending and provincial units, and programs and/or projects not covered by a separate multi-year financing agreement)

iii. **The procurement process** for specifying procurement terms and awarding contracts, publishing information and dealing with complaints;

iv. **The commitment/obligation establishment and clearance process** to ensure funds are available to meet contractual obligations;

v. **The contract management process** for ensuring: i) assets, goods and services are delivered on time and to standard (quality and quantity verification); ii) invoices are tracked; iii) valid invoices are paid on time; and iv) assets and inventory stocks are recorded.

43. **The allotment process appears ineffective in managing cash and is in fact attempting to manage budget priorities.** The primary purpose of allotment (warrant) and commitment control is to manage cash – to make sure appropriations are not breached and cash is available to meet bills when they are due. Up until the recent cash crisis, GoIRA has never been cash constrained. ***Cash could in theory be brought forward under multi-year agreements***, but there has never been a need (partly as a result of over-budgeting discussed in the previous chapter)[4]. Allotments when used appropriately as a cash control mechanism can be revoked if there are cash constraints (Art 49.2). However, revocation rarely occurs as it is a formal mechanism to manage severe cash constraints. It is understood that actual cash releases are just not authorised or actioned by MoF – even though there is a valid primary or secondary allotment available. The power of MoF to just not release funds, even when there is valid allotment, emerges in the presence of a Treasury Single Account (TSA) system that does not use sub-accounts for spending units, as well as from a lack of access to the accounting system to initiate allotments and commitments in the first place[5]. Formally, revocation of allotments can also be used as a sanction if "expenditures have been made in an incorrect and unjustifiable manner" (Art 49.1).

44. **Allotments are being used to reserve funds at very low levels of expenditure classifications and for very small amounts.** For example, allotments are often required for reservation of funds in minor object codes – like repairs and maintenance and travel – rather than for appropriation control levels (goods and services 22). Moreover, there are often reports that allotments are required for very small amounts – with anecdotal reports of allotment requirements for $400 being commonplace.

45. **The allotment process appears to be the mechanism to revise original budget estimates and to cover inadequacies in the annual budgeting process** including setting budgets for the provinces and secondary spending units. Currently, the annual budget papers do not disclose budget estimates

[4] Other than in the early years of the successfully National Solidarity Program (NSP).

[5] It is understood that establishment of sub-accounts has been resisted by the Central Bank.

for provinces nor secondary spending units. Instead of dealing with this during the budget process, these budgets are handled through the allotment process following the appropriation – even though an estimate for these entities must have already been created. During the year, the allotment process (with the primary purpose to manage cash) is also used to update budget estimates – since there is no other process to do this, other than through initiation of a formal budget review.

46. **This use of the allotment process to strengthen the budget process is causing conflict** – resulting in subordinate legislation (accounting and budget manuals) to be inconsistent and incoherent. For example, the Public Finance and Expenditure Management Law (PFEML) establishes the Treasury as the responsible entity for allotments (Art 7.6). The subordinate Accounting manual establishes the Commitments and Allotments Control Unit within Treasury as the entity that manages allotments (s.4.3) but empowers the General Budget Department to "manage changes to appropriations and allotments *after* the initial budget execution" (s2.5.4.8). Under the manual, Primary Budget Units (spending agencies) are made "responsible for the sub-allotment of funds to secondary budget units" (s2.6.2 – and see s2.7.1.5). In contrast, under General Budget Department procedures, the Budget Execution Unit is empowered to manage allotments and sub-allotments. A work around – through a process of filling in a form – has been established to enable both Treasury and Budget to be both be involved in the allotment process, which has developed in to a cash management, estimates revision and ex-ante control system. The work around, however, means that budget holders cannot use AFMIS as their financial accounting system, as they still need to fill out forms to allow Budget to control its side of the allotment (estimates revision) process.

47. **Incentives to spend quickly and with quality are reduced when budget and accounting systems are not responsive to the needs of budget holders responsible for implementation.** The lack of control by spending agencies over AFMIS has created a system where there are many different budget and accounting and reporting systems being used. Since line agencies have no power to enter allotments, sub-allotments and commitments and manage their budgets and appropriations in AFMIS, they all have developed their own in house budget and accounting systems. Some with quite advanced database systems (with even more functionalities than AFMIS – e.g. invoice date is tracked and allotment forms printing), and some that are more rudimentary systems based on spreadsheets. Without a responsive information management system to manage budgets – providing the means to manage budgets tightly, the incentives to own and manage budgets well are significantly reduced– in other words the system creates incentives to "spend late and with low quality".

Insufficient rigidities in spending control systems

48. **Poor budget execution can be the result when there is not enough rigidity in systems**. Currently, too much money can move and obligations can be entered into without the transaction being in AFMIS. For efficient, effective and timely spending, ***AFMIS needs to cover all the key steps of the full procurement and contract management cycle***. While there is arguably too much rigidity in allotment and commitment process, there are insufficient rigidities in systems for procurement, contract management, invoice receiving, supply verification and request for payment and reconciliation.

49. **Full integration of procurement and contract management** means that many more steps are recorded on the system: i) contracts cannot be legally entered into unless electronic approvals have been granted (by people not involved in procurement); ii) procurement disclosure requirements are met automatically (through procurement transparency portals); iii) contract records are electronically filed on the system; iv) commitments and commitment liquidation is clearly linked to contracts, contract terms and spending; v) supply verification is recorded on the system; vi) invoice dates and invoice receipt dates are tracked on the system (reducing bribery incentives through increased detection capabilities); and vii) reconciliation of payments (including receipts for payments made).

50. **Full integration of procurement and contract management functions has already been achieved with Afghanistan's AFMIS brand in other settings**. In Timor-Leste, full integration was achieved within 12 months, which also involved significant training of the additional procedures that went with the roll-out of control of commitment, procurement and contract management system to budget holders. It should be noted that there was an initial cost to such a move: The first six months when the new system went live, budget execution performance slowed down significantly. That was corrected relatively quickly after finance mangers in line agencies accepted that they needed to learn and use the system properly – especially if their contractors were to get paid.

51. **For the purpose of this preliminary report and to keep the section short, the next sections only briefly summarise the issues in other parts of GoIRA's PFM systems**. For discussion of general issues with the topic, the reader is referred to PEFA and related guidance material.

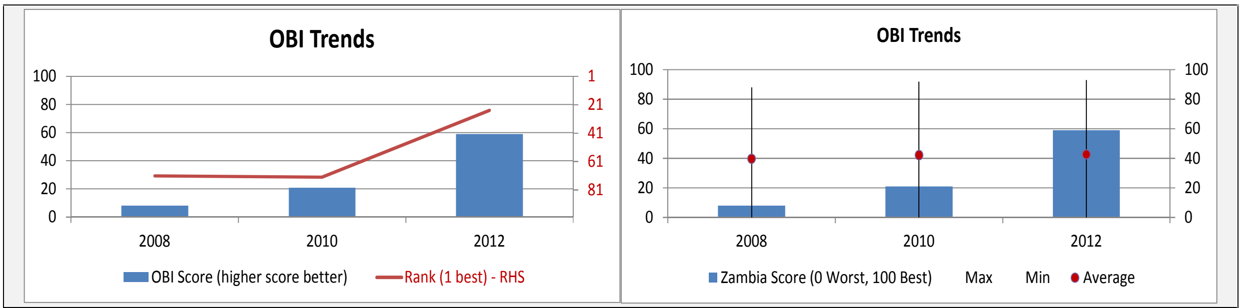
Transparency

Table 3. Fiduciary Risks Associated with Transparency: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	**Classification of the budget [in the sector]**	**L**	**S**	**L**
PI-6	**Comprehensiveness of information included in budget documentation**	**L**	**L**	**L**
PI-7	**Extent of unreported government operations [in the sector]**	**H**	**M**	**M**
	(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in [sector] fiscal reports.	M	M	M
	(ii) Income /expenditure information on donor-funded projects which is included in [sector] fiscal reports.	H	L	L
PI-8	**Transparency of inter-governmental fiscal relations [within the sector]**	**H**	**H**	**S**
	(i) Transparent and rules based systems in the horizontal [sub-sector] allocation among sub-national governments [institutions] of unconditional and conditional transfers from central {higher level SN} government (both budgeted and actual allocations);	H	H	S
	(ii) Timeliness of reliable information to {lower level} sub-national governments [sector institutions] on their allocations from central government for the coming year;	H	H	H
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral [sub-sectoral] categories. {Extent to which financial information (at least on revenue and expenditure) is collected and reported by SN government according to sectoral categories.}	H	H	L
PI-9	**Oversight of aggregate fiscal risk from other public sector entities**	**H**	**H**	**H**
	(i) Extent of central {SN} government monitoring of AGAs and PEs.	H	H	H
	(ii) Extent of central {SN} government monitoring of [lower level} SN government's fiscal position	H	L	L
PI-10	**Public access to key [sector specific] fiscal information**	**S**	**M**	**M**

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

Figure 14. Positive OBI Trends: 2003 to 2012



52. The major issues with transparency are revealed to be as follows:

- **Reform efforts have been successful in making Afghan budgets more transparent** as measured under the Open Budget Index (OBI) but more work remains (see Figure 14);

- **Fragmented budget and accounting classification and reporting standards** is causing opaqueness in the purpose of spending, making it difficult for stakeholders to hold government to account for performance and difficult for decision makers especially Cabinet to make good decisions. It is very difficult if not impossible for non-specialists to make comparisons between budget papers and financial statements;
- **Insufficient disclosures** - the Budget papers are not good enough, making it difficult for stakeholders to understand the intended purpose government budgets, especially in terms of inputs, outputs and outcomes;
- **Lack of disclosure on provincial allocations** and resource allocation rules – causing allocations to the provinces to be more opaque than it should be. In particular, central and general government and public sector budget consolidations are too opaque**.**
- **Weak systems to manage fiscal risks** posed by Public Private Partnerships (PPP), public enterprises and provincial operations – with most public enterprises not meeting any of their annual reporting obligations;
- **Good progress towards meeting eligibility requirements for participation in the Open Government Partnership** – currently ranked 109 out of 209 countries assessed for eligibility with a score of 9 out of 16 (only 3 points short for eligibility). (see Attachment M: Open Government Eligibility Scores on page 99)

Medium-term Strategic Budgeting

Table 4. Fiduciary Risks Associated with Medium-term Budgeting: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	C. BUDGET CYCLE			
	C (i) Policy based Budgeting			
PI-11	**Orderliness and participation in the annual budget process [within the sector]**	**M**	**M**	**M**
	(i) Existence of and adherence to a fixed budget calendar [consistency of the sector's calendar with that of the Ministry of Finance];	M	M	M
	(ii) Clarity/ comprehensiveness of and political involvement [involvement of sub-sector units] in the guidance on the preparation of budget submissions (budget circular or equivalent);	M	M	M
	(iii) Timely budget approval by the [sector committee in the] legislature or similarly mandated body (within the last three years);	M	M	M
PI-12	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**S**	**M**	**M**
	(i) Preparation of multi -year fiscal forecasts and functional [sub-functional] allocations	S	M	M
	(ii) Scope and frequency of debt sustainability analysis	S	L	L
	(iii) Existence of [detailed] sector strategies with multi-year costing of recurrent and investment expenditure [for sub-sector units and programs];	S	M	M
	(iv) Linkages between [sector] investment budgets and forward expenditure estimates.	S	S	S
	ADDITIONAL -Non-PEFA INDICATORS			
	Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting	**H**	**S**	**S**
	(v) Scope and frequency of fiscal sustainability analysis	H	H	M
	(vi) Extent to which costed sector strategies match sector expenditure ceilings from the central government	M	M	M

Table 5. Development Risks Associated with Medium-term Budgeting: 2005, 08 & 2013

	Indicator	2005R	2008R	2013
	C (i) Policy based Budgeting			
PI-12	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**H**	**S**	**S**
	(i) Preparation of multi -year fiscal forecasts and functional [sub-functional] allocations	H	S	S
	(ii) Scope and frequency of debt sustainability analysis	S	L	L
	(iii) Existence of [detailed] sector strategies with multi-year costing of recurrent and investment expenditure [for sub-sector units and programs];	H	M	S
	(iv) Linkages between [sector] investment budgets and forward expenditure estimates.	H	H	H
	ADDITIONAL -Non-PEFA INDICATORS			
	Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting	**H**	**H**	**S**
	(v) Scope and frequency of fiscal sustainability analysis	H	H	M
	(vi) Extent to which costed sector strategies match sector expenditure ceilings from the central government	H	H	H

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

53. The major issues with medium-term budgeting are revealed to be as follows:

- **Development risks are significantly higher than fiduciary risks** in this strategic area;
- **Macro-fiscal and sector baseline modelling and scenario analysis is not working** to feed into budget strategy setting systems properly;
- **Budget preparation system is focused more on aggregation** and not well linked to policy or serious quality control of budget estimates, especially associated with development budget project estimates;
- **The approach to establishing a medium-term perspective is taking the long road**, with a focus on first establishing internal forecasting performance and macro-fiscal models[6], and avoiding adoption of simple but powerful Medium-term Appropriation Control Systems (MACS); and
- **The Government has not prioritized the function - there are no civil servants** in the Fiscal Policy Directorate (FPD) - all staff who have been in line positions for a number of positions, are economists and are contractors engaged under Making Budgets and Aid Work (MBAW) development program, funding for which may well stop in the near future.

Taxation System

Table 6. Fiduciary Risks Associated with Taxation: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	C. BUDGET CYCLE			
	C (ii) Predictability and Control in Budget Execution			
PI-13	**Transparency of taxpayer obligations and liabilities**	**H**	**S**	**S**
	(i) Clarity and comprehensiveness of tax liabilities	S	S	S
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	S	S	M
	(iii) Existence and functioning of a tax appeals mechanism.	H	S	S
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**S**	**M**	**M**
	(i) Controls in the taxpayer registration system.	M	M	M
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	S	M	M
	(iii) Planning and monitoring of tax audit and fraud investigation programs.	H	S	S
PI-15	**Effectiveness in collection of tax payments**	**H**	**H**	**H**
	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	H	H	H
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	M	M	L
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	H	H	H

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

54. The major issues with taxation systems are revealed to be as follows:

- **Published tax revenue forecasts have been very inaccurate** for many years (see Figure 11 on revenue forecasting accuracy on page 11above);
- **The system for assessing tax, tracking tax arrears and collecting debt is weak** and remains under development (including for customs related taxes);
- **Tax audits are yet to deliver** significant revenue results or successful prosecutions;
- **Tax reconciliation systems are not working** routinely to accurately check that monies expected, owed, and received balance and with differences investigated and explained routinely;
- **The reach of the tax system is minimal**, with very few tax offices (buildings and staff) established in the provinces, and with information management system linkages only in place in in Kabul;

[6] The FPD introduced an internal macro-fiscal model for the first time last year built around a financial programming framework.

- **Separation of tax policy and tax collection has not yet been prioritized** – a credible plan will need to be developed; and
- **Institutional anti-corruption plans are underdeveloped to mitigate risk of capture** between tax payer, tax officials and import/exporters and customs officers (with recent anecdotal reports of increased facilitation payments at the borders as a result of political uncertainties and weak remuneration and resourcing arrangements);
- **Remuneration arrangements for tax officials and capital plans for offices are insufficient to deliver the right incentives to collect all tax owed to government** – a credible plan will need to be developed and financed including resourcing agreements for key revenue agencies including tax and customs (requiring application of Article 16 of PFMEL for special funds for non-court related fees, fines and charges and possibly establishing a system of special appropriations under Article 44 of PFMEL).

Non-Tax Revenue

Table 7. Fiduciary Risks Associated with Non-Tax Revenue: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	ADDITIONAL -Non-PEFA INDICATORS			
PI - y	**Transparency and effectiveness of administrative arrangements for non-tax revenue**	**H**	**H**	**H**
	(i) Clarity and comprehensiveness of administration of [sector specific] non-tax revenue [including clarity of specific services for which a fee may be charged]	H	S	S
	ii) Effectiveness of measures for natural resource import and export industry registration and licensing	H	H	S
	iii) Effectiveness in collection of non-tax revenue collection (in the sector)	H	H	S
	(iv) [User] Access to information on non-tax revenue [raised in the sector]	H	S	H
	(v) Extent to which authorised fees are not charged	H	H	H
	(vi) Extent to which unauthorised fees are charged	H	H	H

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

55. The major issues with non-tax revenue systems are revealed to be as follows:

- **Systems for the collection, remittance and reconciliation of fees, fines and charges** are weak, especially key areas including Police, Customs, and Judiciary (with the Mining sector making good progress in recent years);
- **The Extractive Industries Transparency Initiative (EITI) is making good progress**, but will need to be activity supported for many years.
- **Modelling of short and long-term mining revenues needs to continue** in-house within the Ministry of Mines, Fiscal Policy Unit and the Tax Department.

Predictability and Expenditure Control

Table 8. Fiduciary Risks Associated with Expenditure Controls: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	C. BUDGET CYCLE			
	C (ii) Predictability and Control in Budget Execution			
PI-16	**Predictability in the availability of funds for commitment of expenditures [in the sector]**	**H**	**M**	**M**
	(i) Extent to which [sector] cash flows are forecast and monitored	H	L	L
	(ii) Reliability and horizon of periodic in-year information to MDAs [in the sector] on ceilings for expenditure commitment	M	M	M
	(iii) Frequency and transparency of adjustments to [sector] budget allocations, which are decided above the level of management of [sub-sector] MDAs	M	M	M
PI-17	**Recording and management of cash balances, debt and guarantees [in the sector]**	**S**	**M**	**M**
	(i) Quality of debt data recording and reporting [in the sector]	H	M	L
	(ii) Extent of consolidation of the government's [sector] cash balances	S	M	M
	(iii) Systems for contracting loans and issuance of guarantees [in the sector].	L	L	M
PI-18	**Effectiveness of [sector] payroll controls**	**S**	**S**	**M**
	(i) Degree of integration and reconciliation between personnel records and payroll data [in the sector].	S	M	M

	Indicator	2005R	2008R	2013
	(ii) Timeliness of changes to personnel records and the payroll [in the sector]	S	M	M
	(iii) Internal controls of changes to personnel records and the payroll [in the sector]	S	M	M
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers [in the sector]	S	S	M
PI-20	**Effectiveness of internal controls for non-salary expenditure [within the sector]**	**S**	**S**	**S**
	(i) Effectiveness of expenditure commitment controls [within the sector]	S	M	L
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures [within the sector]	S	S	M
	(iii) Degree of compliance with rules for processing and recording transactions [within the sector]	S	S	S
	ADDITIONAL -Non-PEFA INDICATORS			
HLG-1	Predictability of Transfers from Higher Level of Government	S	S	M
	(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	S	S	M
	(ii) Annual variance between actual and estimated transfers of earmarked grants.	S	S	M
	(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	H	H	S

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

56. The major issues with predictability and expenditure controls are revealed to be as follows:

- **Systemic problems in the allotment and commitment processes – with no authority provided to budget holders to use the accounting control system** for these key transactions. This is slowing down and reducing the quality of spending (see also the section on "Numerous rigidities in spending control systems" on p19);
- **Cash management is yet to deliver expected results** – past performance resulted in high levels of idle cash balances at times when cash was not constrained, and systems to manage cash under cash constrained times are drawing on blunt instruments (see Figure 12 on p17);
- **Implicit government guarantees can easily be issued through non-central means**, increasing fiscal risks;
- **The size and cost of the public service wage and consulting bill is opaque and not covered in budget papers** and is at risk of getting out of control, compromising the sustainability of budget (i.e. weak input budgets); and
- **Systems to deliver high levels of compliance with rules are not yet working well** enough.

Procurement

Table 9. Fiduciary Risks Associated with Procurement: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	C. BUDGET CYCLE			
	C (ii) Predictability and Control in Budget Execution			
PI-19	**Competition, value for money and controls in procurement [in the sector]**	**H**	**S**	**M**
	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	H	S	L
	(ii) Use of competitive procurement methods	M	M	M
	(iii) Public access to complete, reliable and timely procurement information	H	S	L
	(iv) Existence of an independent administrative procurement complaints system.	H	M	M
	ADDITIONAL -Non-PEFA INDICATORS			
	Competition, value for money and controls in procurement [in the sector]	**H**	**H**	**H**
	(i) [Extent of active management (revisions and cancellations etc) of contracts based on contractors' performance to ensure continuing value for money]	H	H	H
	Controls in procurement [in the sector]	**H**	**H**	**H**
	(i) Extent of procedures in place [in the sector] to monitor compliance and independence in carrying out procurement	H	H	S
	(ii) Extent of procedures in place to identify and address potential conflicts of interest in awarding contracts and carrying out procurement.	H	H	H
	Controls in procured goods [in the sector]	**H**	**H**	**H**
	(i) Extent of quality inspection and audit at receipt of goods and services procured	H	S	S
	(ii) Extent of adequate storage system and prevention of stock out and theft [in the sector]	H	H	H

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

57. The major issues with procurement systems are revealed to be as follows:

- **The need to take control of the procurement problem by centralizing procurement scrutiny** first in order to decentralize high quality procurement capacity later;
- **Strengthening procurement policy in support of local industry** and reducing the incidence and prevalence of tied aid - be it informal or formal;
- **e-Procurement is not yet rolled-out and current plans do not involve two way integration with AFMIS** and linkages to procurement and financial transparency portals;
- **Contract management is handled outside of AFMIS** increasing risks significantly. These include systems for verification and inspection at receipt of goods and services procured, tracking dates and receipts of invoices, and monitoring upstream work such as specifications and feasibility studies, and downstream work such as contract revisions and cancellations;
- **Forensic IT based auditing of procurement risks is constrained** by lack of linkages of procurement, contract management and accounting systems;
- **Systems and legislation to monitor and manage conflicts of interest** in procurement are still under-developed, including for involvement of contractors and members of parliament;
- **Complaints systems have improved, but further work is required** to ensure assessments are fair and referrals and sanctions work as intended; and
- **The current approach to centralized procurement appears to focus attention** on some of the current highest risks within the procurement cycle including conflicts of interests in the awards of large value contracts, establishing hurdle approaches for empowering spending units based on performance, and improving oversight of procurement activity.

Internal Audit

Table 10. Fiduciary Risks Associated with Internal Audit: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	C. BUDGET CYCLE			
	C (ii) Predictability and Control in Budget Execution			
PI-21	**Effectiveness of internal audit [within the sector]**	**S**	**S**	**S**
	(i) Coverage and quality of the internal audit function [within the sector]	S	S	S
	(ii) Frequency and distribution of reports [within the sector]	S	S	S
	(iii) Extent of management response to internal audit findings [within the sector]	S	S	S

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

58. The major issues with internal audit are revealed to be as follows:

- **Variable capacity across ministries to undertake internal audit in broad compliance with international internal auditing standards** (ISPPIA) –with unclear strategy how broad compliance with be secured over time;
- **Existing reporting mechanisms to the Supreme Audit Institution compromises the independence of internal auditors**, reduces the incentives for Ministers to allow internal audit to work as intended (as an early warning service) and is in conflict with INTOSAI (supreme audit institution auditing) and ISPPIA (internal auditing) standards; and
- **Reports of recent use of internal audit systems by the Government are encouraging**, including appropriate planning, response, and follow-up on confidential matters, and referral of certain matters to the appropriate authorities.

Table 11. Fiduciary Risks Associated with Accounting: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	C (iii) Accounting, Recording and Reporting			
PI-22	**Timeliness and regularity of accounts reconciliation [within the sector]**	**S**	**M**	**M**
	(i) Regularity of bank reconciliations [within the sector]	S	M	M
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances [within the sector]	M	M	M
PI-23	**Availability [Collection and processing] of information on resources received by service delivery units [in the sector]**	**H**	**H**	**S**
	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	H	H	S
PI-24	**Quality and timeliness of in-year [sector] budget reports**	**L**	**L**	**L**
	(i) Scope of [sector] reports in terms of coverage and compatibility with budget estimates	L	L	L
	(ii) Timeliness of the issue of [sector] reports	L	L	L
	(iii) Quality of [sectoral] information	L	L	L
PI-25	**Quality and timeliness of annual [sector] financial statements**	**S**	**L**	**M**
	(i) Completeness of the [sector] financial statements	S	M	L
	(ii) Timeliness of submission of the [sector] financial statements	M	M	L
	(iii) Accounting standards used [in the sector]	S	L	M

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

59. The major issues with accounting systems are revealed to be as follows:

- **In-year reporting is good enough** to enable decision makers to respond to issues in a timely and effective manner – but comparability of budgets and accounts remains a key development risk.
- **The effectiveness of bank reconciliation performance is constrained** by the lack of use of sub-accounts in the Treasury Single Account (TSA), meaning cash accounts are not established for spending units. This results in a high tolerance for irregularities since the cash balance is the whole of Treasury Single Accounts (less special accounts of donors). Lack of sub-accounts makes it difficult to devolve accounting and reporting powers to spending agencies (e.g. Financial Statements including a balance sheet for the Ministry of Education are not really possible without a separate cash balance account). The lack of sub-accounts also makes it difficult to target bank reconciliations, where systems for flagging fiduciary and procurement risks can be put in place for particular spending units. Central Bank reluctance to establish a proper system of TSA sub-accounts is compromising progress.
- **Accounting or classification standards have not been established**, with no reference to IPSAS-cash standards for accounting (and reporting) and GFS-cash standards for classification (and accounting and reporting) and national accounts construction. In particular, a plan to comply with GFS-cash and IPSAS-cash is not yet in place, including plans for adoption of many of the voluntary but still very important IPSAS-cash standards (e.g. appropriation and function reporting).
- **The need to establish a robust accounting and auditing profession within Afghanistan,** to help deliver sustainability of government finances and transparency more generally throughout Afghanistan. Options include expanding links between Afghan universities and institutes and top-tier international universities and institutes offering highly desirable accounting, auditing (internal and external) and PFM qualifications (graduate, post-graduate and professional development).
- **Only Qatia (legacy style) statements are produced and submitted for external audit and transmitted to parliament.** IPSAS-cash and GFS-cash style financial statements appear to be produced only for information purposes (though it is understood that there are plans to

submit statements with the next Qatia). Audits on the reliability of the published IPSAS and GFS style financial statements are not available.

- **There appear to be no plans to have IPSAS-cash and GFS-cash style financial statements produced and audited for large spending agencies**, significantly increasing fiduciary and development risks and compromising accountability and continuous improvement cycle.
- **Inadequate access to AFMIS by line agencies and remote spending units has created multiple accounting systems**, with different standards throughout the Government, and has disempowered spending units.

External Audit

Table 12. Fiduciary Risks Associated with External Audit: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	C. BUDGET CYCLE			
	C (iv) External Scrutiny and Audit			
PI-26	**Scope, nature and follow-up of external audit**	**S**	**M**	**M**
	(i) Scope/nature of audit performed (incl. adherence to auditing standards) [in the sector]	S	M	M
	(ii) Timeliness of submission of [sector] audit reports to legislature.	M	M	M
	(iii) Evidence of follow up on [sector] audit recommendations.	S	S	S

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

60. The major issues with external auditing systems are revealed to be as follows:

- **Compliance with auditing standards for supreme audit institutions (INTOSAI) is limited** to historical practice provisions; and
- **There appear to be no plans to have IPSAS-cash and GFS-cash style financial statements produced and audited for the government as a whole, as well as for large spending agencies**, significantly increasing fiduciary and development risks and compromising the accountability and continuous improvement cycles.

Parliamentary Scrutiny

Table 13. Fiduciary Risks Associated with Parliamentary Scrutiny: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	C. BUDGET CYCLE			
	C (iv) External Scrutiny and Audit			
PI-27	**Legislative scrutiny of the annual budget law [by sector committees where applicable]**	**M**	**L**	**L**
	(i) Scope of the legislature's scrutiny [of the sector}	M	L	L
	(ii) Extent to which the legislature's [sectoral committee] procedures are well-established and respected	M	L	L
	(iii) Adequacy of time for the legislature to provide a response to [sector] budget proposals	M	L	L
	(iv) Rules for in-year amendments to the [sector] budget without ex-ante approval by the legislature	M	L	L
PI-28	**Legislative scrutiny of external audit reports [relating to the sector]**	**S**	**M**	**M**
	(i) Timeliness of examination of [sector] audit reports by the legislature (for reports received within the last three years).	S	M	M
	(ii) Extent of hearings on key findings [relating to the sector] undertaken by the legislature.	S	M	M
	(iii) Issuance of recommended actions by the legislature and implementation by the [sector] executive.	S	M	M

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

61. The major issues with parliamentary scrutiny systems are revealed to be as follows:

- **The standard democratic system used in the system to hold Government account for its fiscal performance is not working** – i.e. where defending of budgets is performed by the Government through Budget Committees – as chaired by Government aligned members of parliament, and criticising Government performance is undertaken by an opposition through a Public Accounts Committees – chaired by a member of the Opposition. The system is not yet in place partly as a result of a lack of a formally organised opposition block.

- **The extent to which Afghanistan can leap frog normal development paths to establish a system of opposition is unclear**. Options include electoral funding for political parties and funding for oppositions and parliamentary committee secretariats. Such funding mechanisms help, inter alia, to reduce the costs of losing elections leading to higher probabilities of political stability and controlled transfers of power and a deeper respect for the rule of election law.

Banking Supervision

Table 14. Fiduciary Risks Associated with Budget Transparency: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
PI-BS	**Compliance with Basel Core Principles**	**H**	**H**	**S**
	(i) Compliance with preconditions for effective banking supervision	H	H	S
	(ii) Compliance with licensing and structure, prudential regulations and requirements and methods of ongoing banking supervision	H	H	S
	(iii) Compliance with information requirements, formal powers of supervisors and cross-border banking	H	H	S

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

62. **Banking supervision is important for six main reasons**, including to: i) Protect public savings; ii) Prevent build-up of problem assets; iii) Limit financing of speculative activities; iv) Ensure stability of financial system; v) Prevent the worst consequences of bank failures; and vi) Limit government's potential liabilities.[xxii] From a fiduciary and development risk perspective, poor banking supervision standards mean that government financial assets are more likely to be lost or not properly accounted for and significantly increases fiscal risks associated with bank bailouts.

63. **The primary mechanism to assess the quality of banking supervision is through an assessment of compliance with Basel Core Principles**. The Basle Committee[7] on Banking Supervision released the Core Principles for effective banking supervision in September 1997 are still as relevant as ever. The Principles are intended to serve as a basic reference for supervisory and other public authorities in all countries and internationally. The Basel Core Principles comprise twenty-five basic Principles that need to be in place for a supervisory system to be effective.

64. **The Basel Core Principles relate to:**

- Preconditions for effective banking supervision - Principle 1
- Licensing and structure - Principles 2 to 5
- Prudential regulations and requirements - Principles 6 to 15
- Methods of ongoing banking supervision - Principles 16 to 20
- Information requirements - Principle 21
- Formal powers of supervisors - Principle 22, and
- Cross-border banking - Principles 23 to 25.

65. **Strengthening the banking supervision system is within the mandate of the central bank and supported by the IMF** and other donors. The level of compliance with Basel core principles for banking

[7] The Basle Committee on Banking Supervision is a Committee of banking supervisory authorities which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of banking supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located.

supervision assessed here is only cursory due to unavailability[8] of IMF Reports on the Observance of Standards and Codes {ROSC} on Banking supervision. However, a ROSC related to banking supervision was undertaken in 2011 (i.e. on anti-money laundering[xxiii]).

66. **The rapid assessment of compliance with Basel Core Principles was assessed to be broadly non-compliant** in the seven key principle areas, with broad compliance in certain principles and non-compliance in others. Full compliance with any principle was not detected. The resulting risks associated with this level of assessed performance are provided at Attachment F: Banking Supervision on page 81. A more detail assessment is warranted.

67. The major issue with banking supervision is revealed to be as follows:

- **Broad non-compliance with Core Basel Principles** exposes the government to avoidable fiduciary, development and fiscal risks.

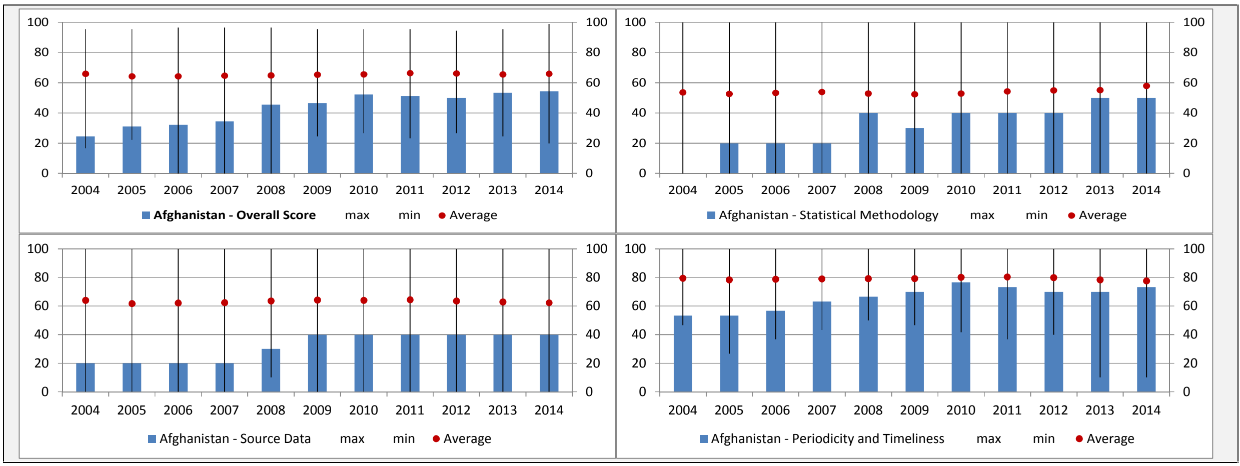
Statistics

Table 15. Fiduciary Risks Associated with Budget Transparency: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
PI-SC	**Capacity for Social and Economic Statistics**	**M**	**M**	**L**
	(i) Compliance with methodology	M	M	L
	(ii) Adequacy of source data	M	M	L
	(iii) Periodicity and timeliness of statistics	L	L	L

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

Figure 15. Statistical Capacity Trends 2004 to 2014



68. **Capacity to deliver timely, complete and well collected statistics is important in PFM systems** for three reasons: i) to ensure government can be held to account for performance against its fiscal policies – in particular that funds are being used for intended purposes; ii) to help inform government when setting macro-economic, monetary and fiscal/social policies – especially within a medium term context; and iii) establish good levels of transparency in government operations.

69. **Statistical capacity of the MoF has improved significantly since 2005.** Statistical capacity is another driver of development risk, especially in relation to budgeting given the importance of statistics in policy formation and performance review. Afghanistan has benefited from regular statistical capacity assessments, which reveal that Afghanistan increased its overall statistical capacity

[8] At the time of writing.

70. **Figure 15 reveals that the gains achieved over the period** have occurred in all dimensions, with major gains in methodology occurring between 2007 and 2013 and good gains in source data between 2007 and 2019. Periodicity and timeliness are near world averages.

71. The major issue with statistical capacities is revealed to be as follows:

- **Weak methodologies and insufficient source data for statistics**, meaning that confidence in statistics is lower than it could be, compromising the effectiveness of evidence-based decision making in government.

3. Trade-offs between Fiduciary and Development Risks – Donor Practices

72. **There are often trade-offs between exposure to fiduciary risks and development risks**. This section looks at the trade off from the perspective donor practices.

Table 16. Fiduciary Risks Associated with Donor Practices: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	D. Donor Practices			
D-1	**Predictability of Direct [sector] Budget Support**	**S**	**L**	**L**
	(i) Annual deviation of actual [sector] budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	S	M	M
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) [for the sector]	S	L	L
D-2	**Financial information [for the sector] provided by donors for budgeting and reporting on project and program aid**	**S**	**S**	**S**
	(i) Completeness and timeliness of budget estimates [for the sector] by donors for project support.	S	S	L
	(ii) Frequency and coverage of reporting [for the sector] by donors on actual donor flows for project support.	S	S	S
D-3	**Proportion of aid that is managed by use of national procedures**	**S**	**S**	**S**

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

Table 17. Development Risks Associated with Donor Practices: 2005, 2008 and 2013.

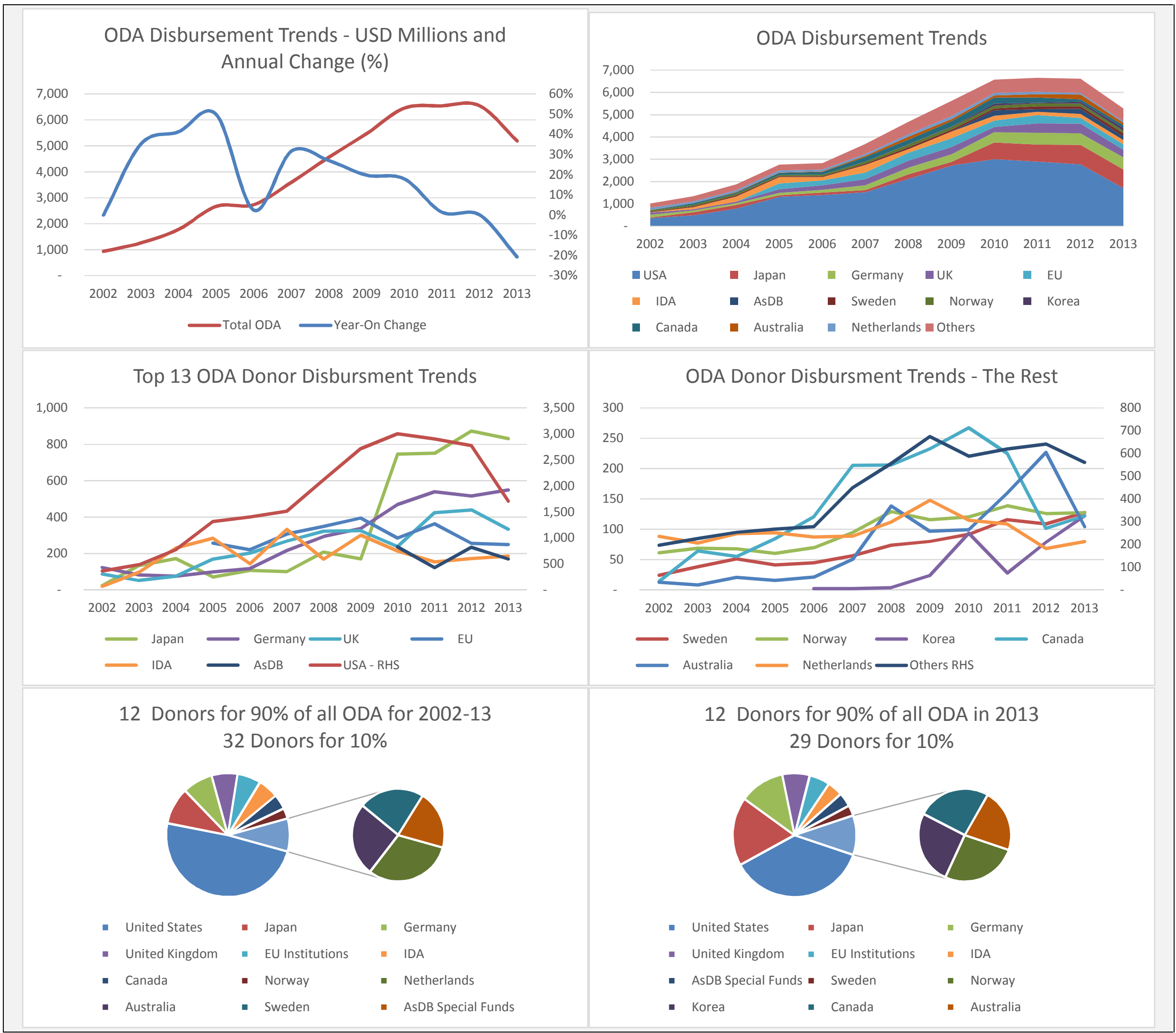
	Indicator	2005R	2008R	2013
	D. Donor Practices		H	S
D-1	**Predictability of Direct [sector] Budget Support**	**H**	**M**	**M**
	(i) Annual deviation of actual [sector] budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	H	M	M
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) [for the sector]	H	L	L
D-2	**Financial information [for the sector] provided by donors for budgeting and reporting on project and program aid**	**H**	**H**	**H**
	(i) Completeness and timeliness of budget estimates [for the sector] by donors for project support.	H	H	L
	(ii) Frequency and coverage of reporting [for the sector] by donors on actual donor flows for project support.	H	H	H
D-3	**Proportion of aid that is managed by use of national procedures**	**H**	**H**	**H**

H=High risk, S=Substantial risk, M=Moderate risk and L=Low risk.

73. **Annual disbursements of Official Development Assistance (ODA) to Afghanistan grew quickly**, tripling from around $1billion in 2002 to almost $3 billion in 2006, and then doubling over the next five years, reaching $6.5 billion by 2010. The United States accounted for nearly half (44%) of all aid between 2002 and 2013, with Japan providing 9% ($4.2b), Germany 7% ($3.4b) and UK ($2.9b) and EU ($2.7b) both providing 6%. Twelve (12) donors provide 90% of all aid delivered with another 32 donors providing the remaining 10%. The United States cut back ODA in recent times by 43% between 2010 and 2013. However, this has been offset by increases by Japan (387%) and Germany (63%) between 2009 and 2013. (See Figure 16 below and Attachment G: AID Data on page 82.)

74. **According to PEFA scores, the practice of donors in Afghanistan is improving but levels of development risk means there is still room for improvement.** Good donor practice is an important component for increased absorptive capacity – the ability to use additional resources efficiently. Donor-induced development risk can be caused by fragmented budgeting and overwhelming recipient governments with numerous donor requirements. Moreover, it remains a binding constraint to unified budgeting, streamlined decision making and development of strong fiscal discipline (all key development risks).

Figure 16. Total Official Development Assistance Disbursement Trends



Figures are in USD millions unless otherwise stated. Source: Financial Statements and Budget Papers.

75. **From an absorptive capacity point of view, donor practices can hinder or support a country's ability to absorb aid effectively** and allocate and spend resources efficiently. There is certainly room for improvement in donor practices that could increase Afghanistan's absorptive capacity. Examples include timely and appropriately classified project aid and increased use of more country PFM systems (e.g. budget cycle, all parts of the Chart of Accounts, procurement and audit and reconciliation systems, and more use of sector budget support for good performing ministries that have a strong track record of ownership and commitment to reform).

76. **It should be noted that while project-based assistance can, prima facie, reduce exposure of a donor to certain fiduciary risks[9] it unambiguously increases development risk borne by the recipient** via, for example, institutionalising non-standard procedures for fund accounting.

[9] Traditionally, donors attempt to reduce their exposure to fiduciary and reputation risk borne by focusing on three elements: i) extreme control of eligible expenditures related to the intended purpose for the use of aid; ii) increasing the probability of achieving value for money by enforcing the use open completion during procurement; and ii) engaging in close scrutiny of accounts and bank reconciliations. Such a focus justifies a narrow definition of fiduciary risk, also traditionally used being the risk that aid or government funds: i) are used only for authorized purposes

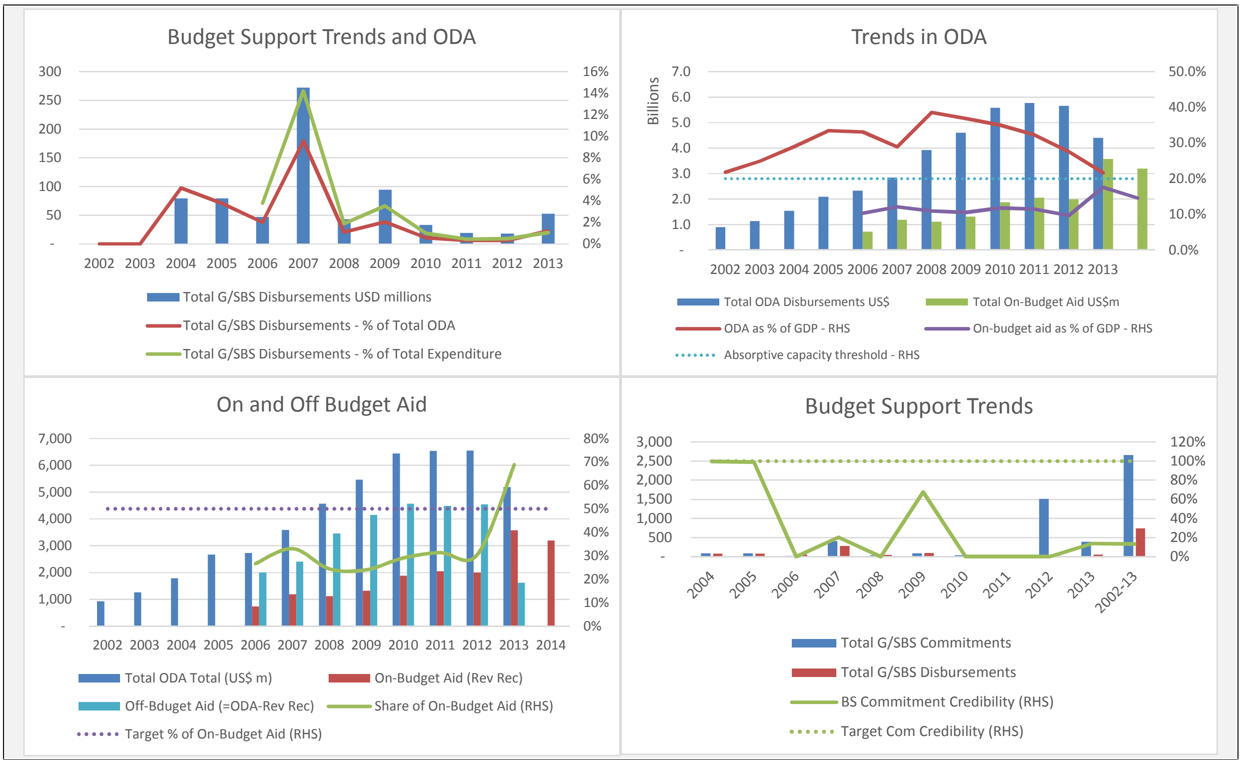
77. **Project based aid, however, can increase fiduciary risks borne by the recipient by fragmenting standard PFM systems** including budgeting, controls, accounting and auditing systems, causing opaqueness rather than transparency, and uncertainty rather than confidence. In other words, large amounts of project based aid, whether or not it is pooled, breaks down the powers of the budget cycle to allocate all resources once, accounting for all resources spent according to one standard, auditing and reviewing performance of spending following the single audit principle. All this weakens the ability of the parliament and citizens to hold the government to account for performance.

78. **On-budget and on-account aid has risen** in nominal terms and as of percentage of government expenditures. Consequently, the impact of donor practice is certainly not insignificant.

79. **Levels of general and sector budget support have been low.** Over 12 years around 2% of ODA has been for general and sector budget support. The World Bank has been the largest budget supporter providing around $330m since 2004 through its development policy operations. This is equivalent to OECD classified forms of sector budget support for public sector management, public finance, energy, banking and business services. The EU gave the most amount of general budget support in any one year in 2007 – just over $110mm, while the IMF, through its concessional trust funds, provided the most amount of general support in aggregate (over $153m).

80. **Levels of budget support are not predictable.** Only in 2004 and 2005 did annual commitments to provide budget support actually result in the same amount actually being provided. These were World Bank (IDA) development policy operations (sector budget support). $1.5 billion in sector budget support committed by USA in 2012 and $338m in 2013 did not result in any disbursements in lead up to the 2014 election. (See Figure 17 and Attachment G: AID Data on page 82.)

Figure 17. Low budget support but off and on budget aid converging to efficient levels



Source: OECD DAC CRS, Financial Statements and WDI.

(eligible expenditures); ii) do not achieve value for money (open competition) based procurement; or ii) are not properly accounted for (according to a standard).

Box 4. Why Budget Support Matters

The following are some reasons that budget support generally matters when it comes to how aid is delivered and how dialogue is undertaken.

1. Political and Economic Diplomacy Reasons: It is often necessary to empower benevolent leaders who need support implementing a tough reform agenda. Budget support is one way to do that.

2. Meet International Obligations particularly following Aid Effectiveness Principles and meeting g7+ TRUST and FOCUS commitments.

Aid effectiveness principles including Paris Declaration and the Accra Agenda for Action require more work towards greater use of country systems (not just getting aid on budget and on account).

Afghanistan joined the g7+ in 2010. Key donors that have endorsed it include: Australia, France, Germany, Japan, UK, USA, and AsDB, EU, OECD, UNDG, World Bank.

g7+ TRUST= T: for Transparency; R: for Risk sharing and Risk management; U: for Using country systems; S: for Strengthen national capacities; and T: for timely and predictable aid.

g7+ FOCUS= F: for Fragility assessment; O: for One vision, one plan for getting out of fragility; C: for a Compact to implement the plan; U: for Using the PSG (Goals) to monitor progress; and S: for Supporting political dialogue and leadership.

3. To Focus on Results and Get out of the Weeds: Effective budget support is enabled through team-based performance management targeted at fiduciary risk reduction. Such mechanisms enable dialogue to occur at the right times in the budget cycle and cover the right areas.

4. All the other standard arguments for budget support: i) Lower transaction costs; ii) Greater predictability of aid; iii) Stronger domestic accountability; iv) Increased institutional effectiveness – using the system to improve the system leading to a) improved aggregate fiscal discipline; b) more strategic allocation of resources, and c) more efficient service delivery.

5. Trends in budget support – if budget support has been low over recent times and reforms have been relatively successful and moving in the right direction, then there is a case to strategically increase levels of general and sector budget support.

It is also important to discuss issues with local opponents of budget support by: a) presenting the evidence that budget support is more cost-effective when basic conditions are right, and can be much more cost-effective when certain conditions are in place (e.g. 2014 Synthesis of Budget Support Evaluations Report[xxiv], 2014 Timor-Leste Progress Report[xxxiii] etc); and b) addressing commercial risks borne by consulting firms (e.g. bribery attempts at contract award and during contract management including at payment milestones[10]).

81. **The primary mechanism to finance the current budget – the current window mechanism – is not recognised by the OECD to be a form of general or sector budget support**. The current window mechanism is much more restrictive as it comes in the form of project based aid, reflecting elements of highly restrictive earmarked budget support modalities.

[10] **An innovative approach to 3rd party monitoring was used to reduce risks of corruption and non-payment associated with a recent contract for the forensic audit of the Kabul bank**. Such approaches could be utilised when moving to budget support and transitioning technical assistance contracts from Donor to Government. The innovative approach involved systems at contracting and payment stages: ***On contract award:*** A Memorandum of Understanding (MoU) with Ministry of Finance was established with the donor. Under the MoU the donor agreed to provide the amount to MoF, to pay suppliers for specific tasks. It is down to MoF and their partners to procure the required services in line with Afghan legislation. MoF and the partners bear the risk of non-compliance with the legislation. The donor does not enter into a contract with the supplier. ***On payments:*** The supplier invoices the contracting entity and provides activity reports detailing tasks completed. The contracting entity and Ministry of Finance sign-off these documents and forward to the donor. The donor checks that the invoices and reports are accurate, then instructs the bank to pay the supplier directly. The donor effectively acts as a 3rd party intermediary, thereby significantly reducing opportunities for corruption through facilitation payments through the use of delay tactics or extortion. This arrangement means that the government owns the policy and acts as the customer, and the donor avoids the fiduciary risk associated with putting funds through government systems.

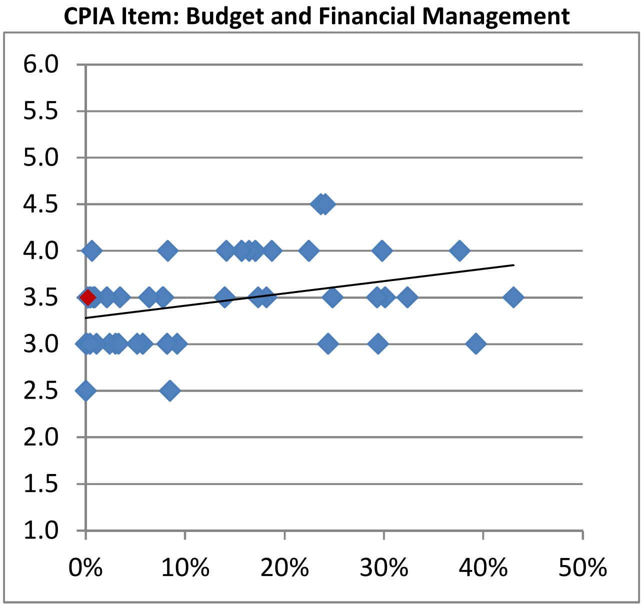
82. **Off-budget and on-budget aid is now converging to an efficient level** – reflecting the absorptive capacity limit rule of thumb of around 20% of GDP. International research has found that the incremental impact of aid on partner country growth falls after it reaches roughly 20 percent of that country's GDP [xxv, xxvi & xxvii]. (See Figure 17 and Table 18.).

83. **In 2013 the level of off-budget aid exceeded the 50% goal for on-budget aid for the first time ever** – the goal of which was first set at the London Conference (2010)[xxviii] and reaffirmed at the Kabul Conference (2010)[xxix], Tokyo Conference (2012)[xxx]. In 2013 the level of on-budget aid disbursed was almost 70% of all ODA disbursed (see Figure 17).

84. **Analysis undertaken in 2012 found an interesting result when reviewing factors that determine levels of budget support** (see Attachment I: What are the Factors that Determine the Levels of Budget Support and Does Fiduciary Risk Matter? on page 91). The review explored the relationships between World Bank Country Policy and Institutional Assessment (CPIA) scores and shares of all forms of budget support recipient countries received as a percentage of all ODA.

85. **The review found that the quality of budget and financial management systems in Afghanistan would indicate, ceteris paribus, that Afghanistan could expect to receive 20% of its aid in some form of budget support** (see Figure 18). It also found more generally by looking at relative performance of other countries, it would be not be unexpected to see Afghanistan receive around 10% of its ODA in some form of budget support. The review did not explore other determinants of budget support levels such as for economic diplomacy reasons, including for the backing of strategically important and friendly governments in urgent need of flexible and responsive financing.

Figure 18. Relationship between CPIA item and budget support as % of ODA



Medium correlation detected. Red diamond indicates Afghanistan. Blue diamonds are other countries.

86. The major issue with donor practices is revealed to be as follows:

- **Development risks are significantly higher than fiduciary risks** in this area;
- **More reliable estimates of annual budget support** levels used to finance annual budgets is needed to reduce development risks;

- **More genuine budget support can deliver better development results** when the conditions are right – in line with the Afghan Reform programme[xxxi] and expressed through a rolling action plan";
- **A better balance of different budget support types** (including direct, earmarked, program, agency, sector and general) also help deliver better development results at lower cost;
- **Better compliance with the primary classification system** used by government is needed for project based aid; and
- **Increased support for defragmentation** of development and operating budgets is needed.

Table 18. General and Sector Budget Trends – Levels and Share of ODA

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2002-13
General and Sector Budget Support (US$m)													
All Donors, Total	**-**	**-**	**79.64**	**79.18**	**47.06**	**272.3**	**43.15**	**94.56**	**33.18**	**19.66**	**18.38**	**52.99**	**740.05**
IDA	-	-	79.64	79.18	-	80.91	-	36.99	-	-	-	51.20	**327.91**
IMF	-	-	-	-	-	54.74	35.71	17.43	8.62	18.95	18.38	-	**153.83**
EU	-	-	-	-	-	110.5	-	-	-	0.71	-	1.74	**113.00**
Canada	-	-	-	-	28.21	26.06	7.44	22.35	-	-	-	-	**84.06**
Australia	-	-	-	-	-	-	-	0.10	19.26	-	-	-	**19.37**
Germany	-	-	-	-	18.83	-	-	-	-	-	-	-	**18.83**
Sweden	-	-	-	-	-	-	-	17.69	-	-	-	-	**17.69**
France	-	-	-	-	-	-	-	-	5.30	-	-	-	**5.30**
Czech Rep	-	-	-	-	-	-	-	-	-	-	-	0.05	**0.05**
Ireland	-	-	-	-	0.02	-	-	-	-	-	-	-	**0.02**
Austria	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share of Total Disbursed ODA													
All Donors, Total	**0%**	**0%**	**4%**	**3%**	**2%**	**8%**	**1%**	**2%**	**1%**	**0%**	**0%**	**1%**	**2%**
IDA	0%	0%	35%	28%	0%	24%	0%	12%	0%	0%	0%	28%	**14%**
IMF						100%	100%	100%	100%	100%	100%		**100%**
EU		0%		0%	0%	36%	0%	0%	0%	0%	0%	1%	**4%**
Canada	0%	0%	0%	0%	23%	13%	4%	10%	0%	0%	0%	0%	**5%**
Australia	0%	0%	0%	0%	0%	0%	0%	0%	19%	0%	0%	0%	**2%**
Germany	0%	0%	0%	0%	16%	0%	0%	0%	0%	0%	0%	0%	**1%**
Sweden	0%	0%	0%	0%	0%	0%	0%	22%	0%	0%	0%	0%	**2%**
France	0%	0%	0%	0%	0%	0%	0%	0%	9%	0%	0%	0%	**1%**
Czech Rep										0%	0%	1%	**0%**
Ireland	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	**0%**
Austria	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	**0%**

4 ASSESSMENT OF THE RISK OF CORRUPTION

4.1 Overview

87. **The assessment of the risk of corruption focused on the risks posed by inherent systemic weaknesses in corruption specific systems.** The methodology adopted to quantify systemic fiduciary and development risks allowed quantification of inherent systemic risks of corruption. The approach analysed the effectiveness of anti-corruption measures between 2005 and 2013. The methodology used to quantify risk was based on the UNCAC framework.

88. **This chapter makes an assessment of the risk of corruption**[11] from wider perspectives including: i) the political economy of the country and how this affects levels of corruption; and ii) evidence on the perceptions of corruption and levels of the actual extent of corruption. This compliments the previous chapter which looked at the level of fiduciary risks and the potential of corruption in relation to funds passing though Afghanistan's PFM systems.

89. **Corruption risk is assessed as persistently high.** The question of the level of corruption risk needs elaboration since there is sufficient evidence that clearly indicates that corruption exists and is a significant problem. Furthermore, the ***extent of corruption is not narrowing – petty corruption is not yet less prevalent than in the past.*** The rating of high reflects evidence of progress in setting foundations to tackle the problem of corruption and some evidence of progress over time, albeit slowly.

90. **Afghanistan has benefited from various surveys on the extent of corruption, which provides a good evidence base** to understand that nature of corruption in the country. Afghanistan has been well covered on global league tables over time. Afghanistan has had mixed results on global league tables on various corruption perception and other types of indicators with corruption being rated as a major problem but with improvements being revealed over time. The key results of these global league tables are outlined below:

- ***World-wide Governance Indicators for Control of Corruption Index shows no improvement*** during the term of the previous administration on perceptions for the Control of (see Attachment K: World Wide Governance Indictors on page 96).
- ***Transparency International's 2014 Corruption Perceptions Index (CPI)*** **still** ***shows no improvement*** and ranked Afghanistan 172 out of 177 countries, with a score of 12 out of a possible score of 100 (see Attachment L: Trends – on page 97).
- ***Freedom House rated Afghanistan as partly free between 2005 and 2007*** under the Freedom in the World measure, but has slipped back to not free and has remained there (see Attachment L: Trends – on page 97);
- ***Economist Intelligence Unit: Democracy Index Trends still rates Afghanistan as authoritarian*** and in the bottom 10%;
- ***The Open Budget Index*** scored Afghanistan in 2012 as in the top 25 countries with a score of 59 out of 100, marking significant improvements from 2008 (with a score of 8 and a rank of 71) and 2010 (with a score of 21 and a rank of 72) (see Figure 14 on page 21.)

[11] There are no universally accepted definition of corruption and fraud; however Transparency International defines corruption as: '*the abuse of entrusted power for private gain*'. It is this broad definition that is used throughout this paper.

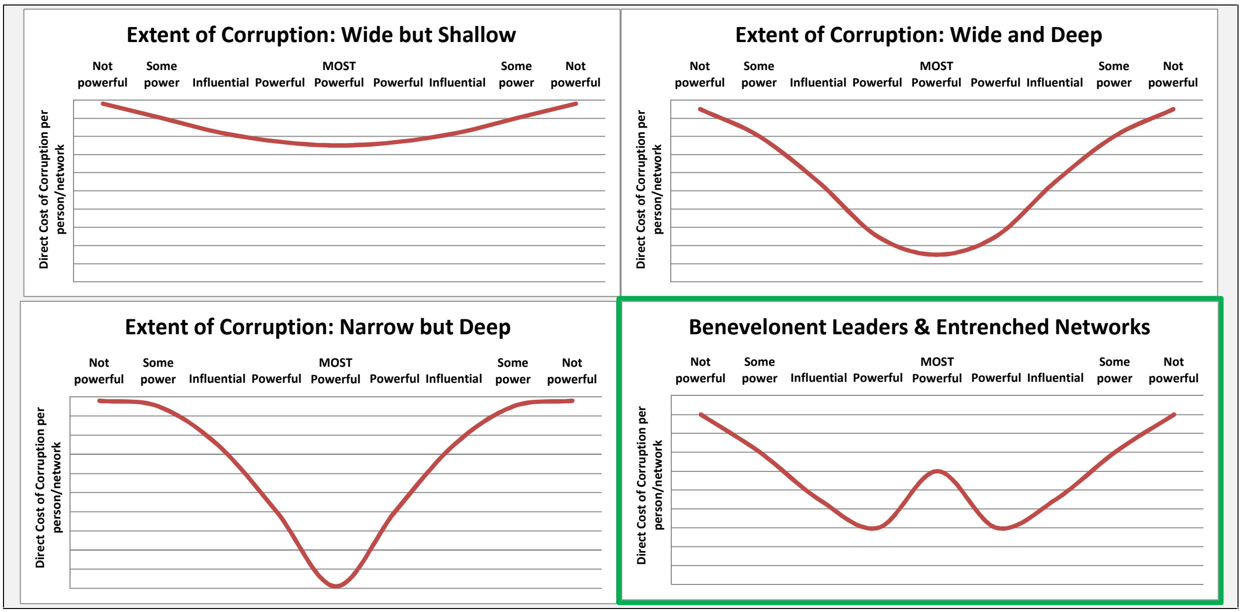
91. **The corruption risk question can generally be considered in terms of the extent of corruption within the context of the following four key dimensions:**

i. ***Depth*** - the direct cost of corruption per government official/network – petty to grand corruption;
ii. ***Width*** - the proportion of government sector involved around the most powerful – with grand corruption linked to the most powerful, and petty corruption linked to the least;
iii. ***Direction change*** of width and depth; and
iv. ***Drivers of change*** on width and depth.

92. **How wide and deep corruption is in a country depends on many country specific factors**, such as: i) the suitability and effectiveness of anti-corruption laws and measures; ii) the ability of the PFM system to detect and deter corruption; and iii) path dependency factors like national income levels, the degree of respect for the rule of law, the extent and abilities of reformers in government and civil society, and level of dissatisfaction that citizens have with their quality of life and effectiveness of their government. These factors can play out in different ways on the overall extent of corruption in a particular country.

93. **Four generic scenarios are presented** in Figure 19, which illustrates extent of corruption against width – the proportion of government involved in corruption in terms of power (petty corruption associated with the less powerful) – and depth – the direct cost of corruption per person or network (grand corruption associated with the more powerful).

Figure 19. Generic Scenarios for the Extent of Corruption in a Country



94. **The direction of change in the extent of corruption risk appears to be no change, however there are clearly high expectations of the current President**. What appears to be the case based on anecdotal evidence is that the extent of corruption is becoming shallower at the centre – reflecting the benevolent leader in entrenched networks model (see Figure 19).

95. **The direct evidence that corruption might be deepening over time – becoming more costly - is limited**. Nevertheless, factors that increase the risk of deep corruption are available to be assessed. One important factor is the extent of the ***common pool problem***, with the assumption being that the bigger the common pool, the higher the risk of narrow but deep corruption.

96. **A "common pool problem" emerges when costs are borne by many but the benefits are enjoyed by a few.** This is a typical problem faced by all governments. However, it is argued that in aid dependent countries the implications and forces are much more powerful. It is clear that in Afghanistan there is a common pool of large revenues secured from aid. This means that there are high levels of revenues sourced from aid under the control of government officials – increasing risks of rent seeking. Recently, however, levels of on and off-budget aid have been converging to the efficient level of aid rule of thumb of 20% of GDP (see Figure 17 above on page 34). Such events reduce the risk of aid dependency difficulties caused by and the common pool problem.

4.2 Quantifying the Risk of Corruption

97. **The risk of corruption was rated and quantified within the context of the overall risk assessment** in keeping with the methodology used to quantify fiduciary risk of PFM systems. A critical ingredient that helps ensure a government's PFM system works well is the system for fighting corruption in a country. Every country's system to deal with corruption is different as country context matters, meaning that focus areas, institutions and approaches can differ.

98. **Corruption risk was rated as persistently high between 2002 and 2013.** Corruption scores are provided at Table 19 and Table 20. It is too early to tell if corruption risk has fallen as a result in a change of government. However, early indications are positive.

99. **An anti-corruption system is complex.** However, there are basic features that are common. The United Nations Convention Against Corruption (UNCAC) sets these in a useful framework outlining the following key themes of a fully functional anti-corruption system:

- **Preventative measures** dealing with: policies and practices; anti-corruption bodies, public sector and codes of conduct for public officials; public procurement and PFM; public reporting; judiciary and public prosecution; private sector participation by society; and money laundering;
- **Criminalization and enforcement** dealing with: bribery of national public officials foreign public officials and officials of public international organizations; embezzlement, misappropriation or other diversion of property by a public official; trading in influence; abuse of functions; illicit enrichment (unexplained increases in assets of an official); bribery in the private sector; embezzlement of property in the private sector; laundering of proceeds of crime; concealment, obstruction of justice; liability of legal persons; participation in and attempt at corruption; knowledge, intent and purpose as elements of an offence; statute of limitations; prosecution, adjudication and sanctions; freezing, seizure and confiscation; protection of witnesses, experts, victims and reporting persons; consequences of acts of corruption; compensation for damage; specialized authorities; cooperation with law enforcement authorities; cooperation between national authorities; cooperation between national authorities and the private sector; bank secrecy; criminal record; and jurisdiction;
- **International Cooperation** including on: extradition, transfer of sentenced persons, mutual legal assistance, transfer of criminal proceedings, law enforcement cooperation, joint investigations, and special investigative techniques;
- **Asset Recovery** including on: prevention and detection of transfers of proceeds of crime; measures for direct recovery of property; mechanisms for recovery of property through international cooperation in confiscation; international cooperation for purposes of confiscation; special cooperation; return and disposal of assets; and financial intelligence; and
- **Technical assistance and information exchange** including on: training and technical assistance; collection, exchange and analysis of information on corruption; and implementation of the Convention e.

100. **A county's PFM system and anti-corruption system are interdependent**: An effective PFM system helps prevent and detect corruption, while an effective anti-corruption system helps make the PFM system work better and allows it to work to its full potential. Moreover, an effective anti-corruption system is arguably a binding constraint to how quickly a PFM system can improve and how effective it is in minimizing fiduciary and development risks.

101. **The anti-corruption system is important in helping the PFM system achieve three classic budgetary outcomes** of: i) *efficient service delivery* or technical efficiency – producing a given set of outputs or outcomes for the least possible cost; ii) *strategic allocation of resources* or allocative efficiency – allocating resources to the highest priority areas or areas that have the greatest social and economic impact; and iii) *aggregate fiscal discipline* – what is needed to achieve allocative and technical efficiency (i.e. budget targets are met) - Budgets should be the result of explicit and enforced decisions; they should not merely accommodate spending demands[12].

Table 19. Anti-corruption System – Scores and Risks: 2005-2012

	Indicator	2005R	2008R	2013
	Other			
PI-19AC	**Effectiveness of Anti-Corruption Measures**	**H**	**H**	**H**
	(i) Effectiveness and enforcement of administrative and criminal sanctions (including discipline and referral procedures)	H	H	S
	(ii) The number of the listed elements of anti-corruption measures fulfilled: a) signed and ratified the UN Convention Against Corruption; b) an anti-corruption strategy; c) strategic objectives are clear and being implemented; and d) a clear self-assessment	H	H	S
	(iii) The number of the listed elements for prevention and enforcement fulfilled: a) public sector ethics and asset declarations; b) access to information and whistle-blower protection; c) public education; and d) private sector standards including accounting and auditing standards.	H	H	H

Table 20. Scoring for Anti-Corruption Performance

Dimension	Status
ii) Elements of anti-corruption measures fulfilled	
a) signed and ratified the UN Convention Against Corruption	Yes
b) an anti-corruption strategy	Partial
c) strategic objectives are clear and being implemented	Partial
d) a clear self-assessment	Partial
iii) Elements for prevention and enforcement fulfilled	
a) public sector ethics and asset declarations	Partial
b) access to information and whistle-blower protection	Partial
c) public education	Partial
d) private sector standards including accounting and auditing standards.	No

102. **Three key areas for an effective anti-corruption system** were adopted for the purposes of assessing and quantifying risk within the Government's PFM system:

i. **Effectiveness and enforcement of administrative and criminal sanctions** (including discipline and referral procedures);
ii. **The number of the listed elements of anti-corruption measures fulfilled**: a) signed and ratified the UN Convention Against Corruption; b) an anti-corruption strategy; c) strategic objectives are clear and being implemented; and d) a clear self-assessment; and
iii. **The number of the listed elements for prevention and enforcement fulfilled**: a) public sector ethics and asset declarations; b) access to information and whistle-blower protection; c) public education; and d) private sector standards including accounting and auditing standards.

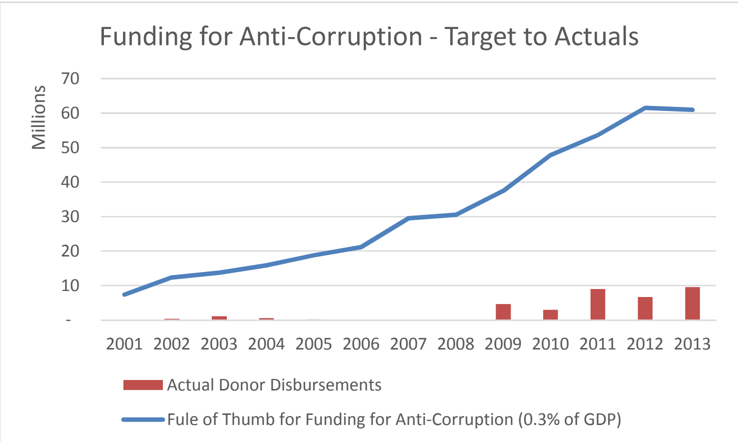
[12] Aggregate fiscal discipline refers to the control of the key measures of fiscal performance, including total spending, total revenue, the financial balance and public debt. In other words, budgets and spending should be the result of explicit, enforced decisions; they should not merely accommodate spending demands.

103. **Under this framework fiduciary risk posed by Afghanistan's anti-corruption system was assessed as "high".** This year, effectiveness and enforcement of sanctions was rated as "C" up from "D" previously, reflecting evidence that while perceptions of corruption are not yet seen as improving on international indicators, there is strong anecdotal evidence that perceptions are improving and are associated with the new President. The revealed weakness of the formal institution that is responsible for the coordination of the fight against corruption is telling. Anti-corruption measures and elements for prevention and enforcement were rated as "C" and "D" respectively (see at Table 19 and Table 20) meaning that much more can be done to progress anti-corruption activities.

104. **Afghanistan is still only in the early stages of building its anti-corruption system.** Key areas of success so far include: i) signing of UNCAC in 2004 with ratification in 2008; ii) the establishment of High Office for Oversight and Anti-corruption (HOOAC) in 2008 and then the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) in 2011[13]; iii) a first code of ethics launched in 2009 and strengthened over a three year process; iv) various draft anti-corruption plans developed through international assistance; and v) a gap analysis of anti-corruption legislation delivered in 2008 (including analysis of legislative compliance with UNCAC, institutional set-up to implement UNCAC in practice and a proposed legislative program)[13].

105. **Some big issues remain with key institutions responsible for the fight against corruption**. The process for the first self-assessment against UNCAC was undertaken by HOOAC, however, the assessment was found to be seriously flawed by the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC)[13]. The Civil Service Commission developed discipline procedures and public sector ethics policies, the effectiveness of which is currently unclear. Discipline procedures that exist appear rudimentary. Anecdotally, sanctions applied can sometimes appear too harsh or too soft and without following due process, increasing perceptions of high corruption risk. Effectiveness of sanctions appears to be associated with the capacity of a particular manager to initiate sanctions rather a systems based approach to sanctioning.

Figure 20. Funding for anti-corruption agencies



106. **More funding will need to be allocated to anti-corruption bodies and key feeder institutions if credibility of the institution can be established.** Around $10m was reported by donors as being provided in 2013 for anti-corruption institutions. This is insufficient and evidence to find where that funding went could not be verified with the time available. Analysis of effective anti-corruption bodies reveals that funding equivalent to around 0.3% of GDP is a sufficient level.

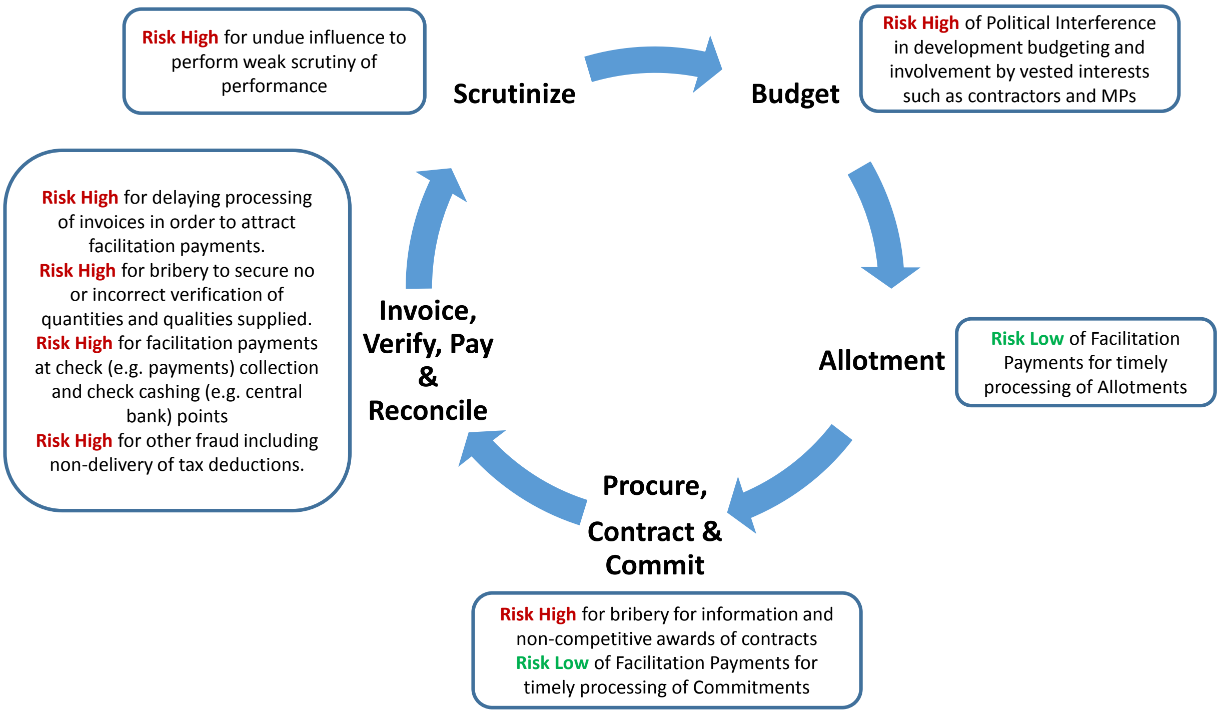
[13] Which highlighted in 2015 many deficiencies of HOOAC including weak reporting – see press release of Feb 15.

107. **Under current GDP levels, anti-corruption bodies should be receiving around $60m per annum** (see Figure 20). Aid and government financing is well short of this. In addition, feeder agencies like the General Audit Service are also significantly under-resourced. For example, support for evidentiary compliant information gathering is not yet prioritized. And more generally, financing a strategy to attain broad compliance with INTOSAI standards within 7 years remains a low funding priority, which would deliver much improved 'detect and deter' capabilities, even if only partially successful. There is a compelling case that there is a role for donors to provide significant levels of financing for anti-corruption and audit bodies – on the basis that it supports financial independence (in line with international standards for those bodies).

108. **Very high corruption risks are also present given poppy (and hemp) production is estimated at around US$5-10 billion per annum**, of which US$1bn[xxxii] goes to at least 200,000 farmers and their families (around only US$5,000 per family per annum). A significant proportion of the market value of production is also estimated to go to warlords, officials and insurgents. The industry has been cited as being a major cause of sustained conflict and deep levels of conflicts of interest within national and sub-national governments, which all helps to sustain a tolerance for corruption.

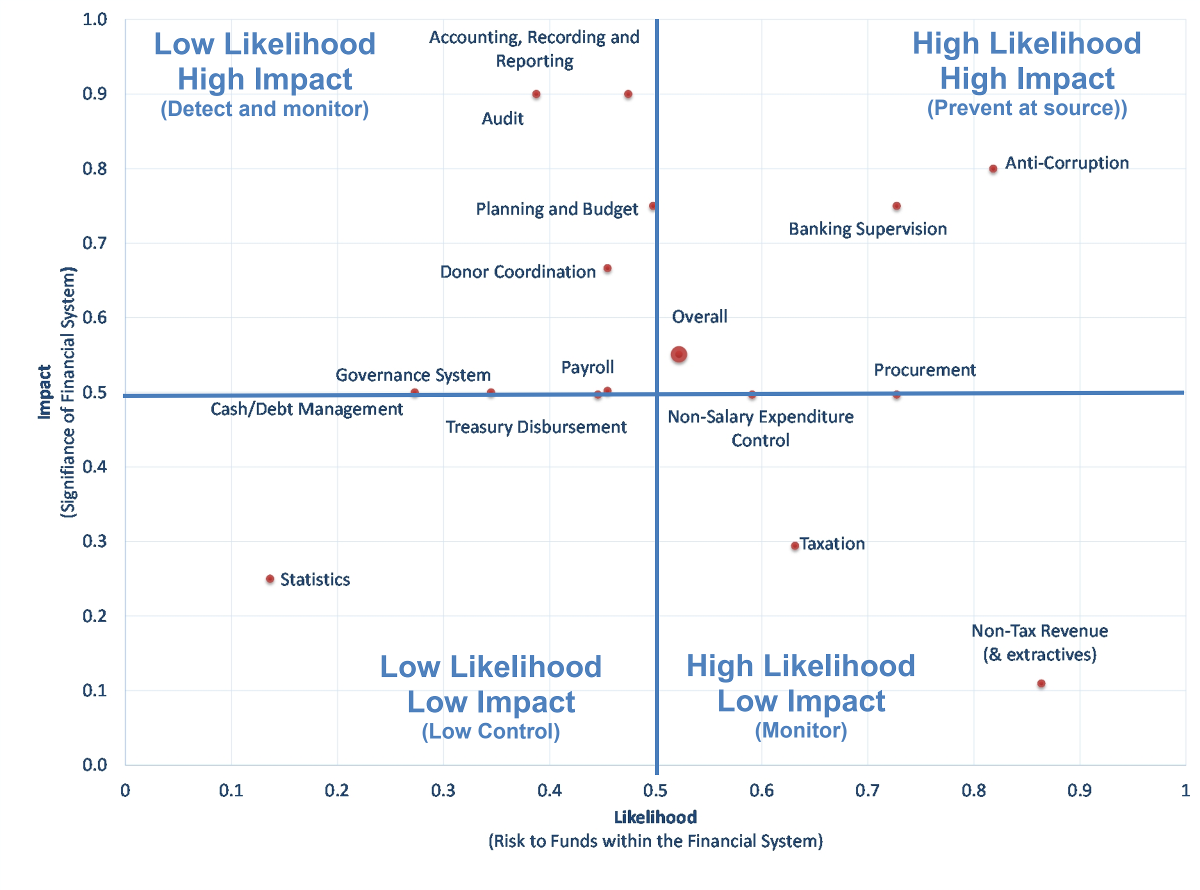
109. **They PFM and anti-corruption systems that are designed to reduce risks within the corruption risk cycle are not yet sufficiently developed.** In the absence of well-developed control systems, which are designed to not slow expenditure (and may speed up expenditure when there are low corruption risks), corruption cycle risks emerge. Some of the common risks are presented at Figure 21.

Figure 21. Generic Corruption Risks within the Budget Expenditure Cycle



5. Financial Impact of Risks

Figure 22. Afghanistan Risk Assessment Map - 2014



110. **The possible financial impact of weaknesses in PFM systems was assessed** using a risk assessment mapping approach. The approach adopted to quantify financial impact is outlined as follows:

- **quantified risks represent a good enough proxy for likelihood** of risks materialising, including inefficiency and leakage; and
- **the impact factor is based on the pecuniary significance of financial system** or assessed importance. Likelihood multiplied by impact factor gives an approximate estimate for inefficiencies and corruption. Results of the risk assessment mapping are presented at Figure 22 and at Table 21.

111. **Analysis of the risk assessment map reveals that the time is right to expand more flexible use of budget support type modalities – together with team based performance management approach to support implementation.** Figure 22 reveals that only banking supervision and anti-corruption systems are required for prevent at source strategies – the area where there is a high risk funds within the financial system and high negative impact if risk materialized (significance of the system) – high risk to the most amount of funds in the financial system.

Table 21. Impact and Likelihood Scores for 2014 Afghanistan Risk Assessment Map

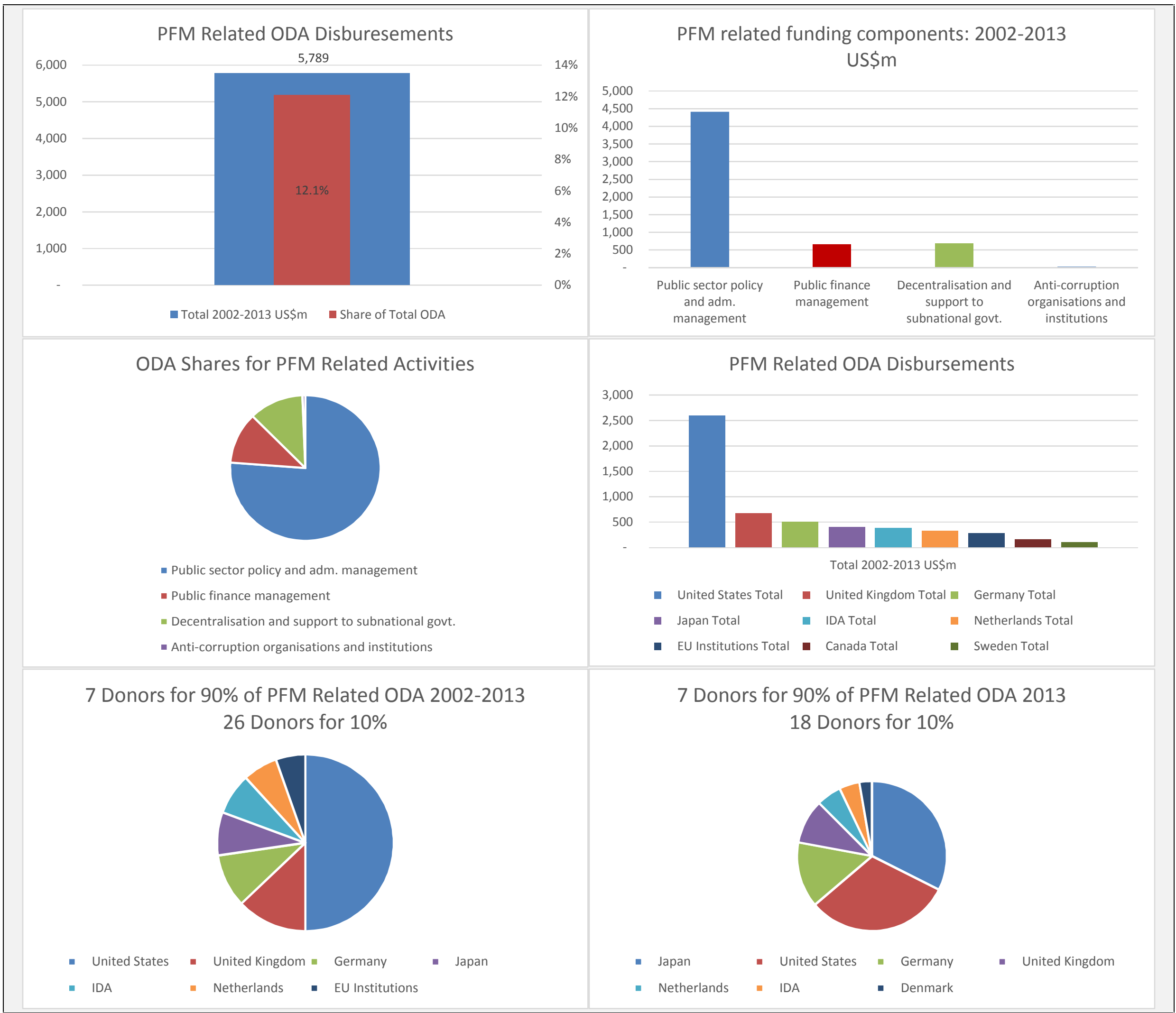
Country System Component	Afghanistan 2013 - (C+) Fiduciary Risks	Impact Significance	Significance
Governance System	**0.34**	**0.50**	Assessed Importance
Planning and Budget	**0.50**	**0.75**	Assessed Importance
Treasury Disbursement	**0.45**	**0.497**	% of non-centralized payments - G&S, capital and transfers and subsidies - average for last 3 years of actuals
Accounting, Recording and Reporting	**0.47**	**0.90**	Assessed Importance
Payroll	**0.45**	**0.50**	% payroll compared to total recurrent expenditure - - average for last 3 years of actuals
Non-Salary Expenditure Control	**0.59**	**0.50**	Proxy: same as treasury
Procurement	**0.73**	**0.497**	% of asset acquisition and G&S and grants - last 3 years
Cash/Debt Management	**0.27**	**0.35**	Assessed Importance - (possible debt as % of GDP 2011)
Taxation	**0.63**	**0.29**	% of Tax revenue of domestic and external operating revenue for last 3 years
Non-Tax Revenue (& extractives)	**0.86**	**0.11**	% of Non-tax revenue (including mining) of domestic and external operating revenue
Audit	**0.39**	**0.90**	Assessed Importance
Anti-Corruption	**0.82**	**0.80**	Assessed Importance
Banking Supervision	**0.73**	**0.75**	Assessed Importance
Statistics	**0.14**	**0.25**	Assessed Importance
Donor Coordination	**0.45**	**0.67**	% of external resources compared to total resources for last 3 years
Overall	**0.52**	**0.55**	Simple Average

6. Cost-Effectiveness of Fiduciary Risk Reduction Efforts

112. **The financial costs of reform overall have been high**, and have increased significantly in recent times. Figure 23 reveals that almost $6 billion in Official Development Assistance (ODA) has been invested by development partners between 2002 and 2013 for strengthening public financial management systems and the machinery of Government. Most of the resources ($4.5b) have gone on strengthening public sector management, with around $0.5b specifically targeting PFM.

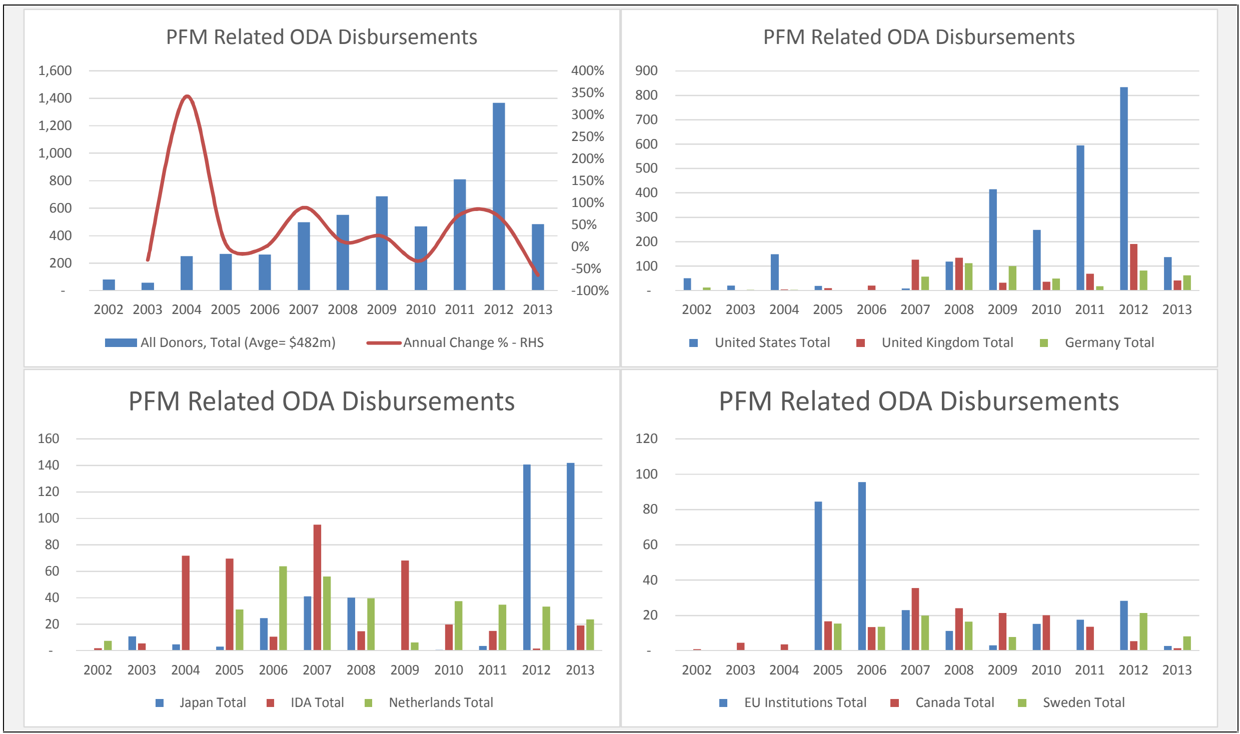
113. **The biggest donor in the PFM area over the period was the United States**, contribution over $2.6b (45%), with the next biggest donors being the United Kingdom and Germany, both contributing $0.5b over the same period. Seven (7) donors provided 90% of all ODA between 2002 and 2013, with 26% providing the next 10%. For 2013 7 major donors still provided, but with a change in donor (i.e. EU dropped out and Denmark came in) and shares changed (i.e. Japan became the dominant donor at 29%, with USA coming in at 28%).

Figure 23. PFM Related Official Development Assistance: 2002-2013



Source: OECD DAC CRS

Figure 24. Disbursement Trends in PFM Related ODA: 2002-2013 by Donor



Source: OECD DAC CRS

114. **A big scale up of assistance for PFM related areas occurred after the 2010 Kabul conference.** Figure 24 reveals the overall average for the period between 2002 and 2013 was $482m, though after the Kabul conference, annual disbursements peaked at almost $1.4b in 2012. The major scale up donor was the United States, but similar scale-up rates were delivered in the same period by UK, Germany and Japan.

Cost effectiveness – cost per improvement in quality index

115. **An assessment was undertaken of the value of money** provided through aid for strengthening public sector management and PFM systems. The standard approach to Cost-Effectiveness Analysis (CEA) was chosen as the analytical method to help determine if value for money was achieved. CEA is a type of economic analysis that essentially compares the relative costs and outputs or outcomes (effects) of at least two courses of action, such as comparing a proposed intervention with no intervention or the current prevailing intervention. CEA is different to Cost-Benefit Analysis (CBA) in that CBA assigns a monetary value to the measure of effect, whereas CEA uses a quantifiable effectiveness comparator. CEA is often used in the field of health services, where like in the development effectiveness field it is either inappropriate or too difficult to monetize effects in a useful and practical way.

116. **CEA results are expressed in terms of Cost Effectiveness Ratios (CER) and Incremental Cost Effectiveness Ratios (ICER)**. CER is simply cost over effect, which can be misleading as it does not account for counterfactuals or relative performance (see equation 1 for simple CER). In ICERs (see equation 2), counterfactuals are purposely addressed: the denominator is a gain in effect $(E_1 - E_0)$

and the numerator is the cost associated with the gain in effect $(C_1 - C_0)$.[14] Incremental costs were assumed to be those additional resources provided through aid – on top of non-aid financed reform.

$$\boldsymbol{Equ} \qquad \mathbf{1}: \qquad C \;\; R = \frac{C_t}{E_t}$$

$$\boldsymbol{Eq} \qquad \mathbf{2}: \qquad I(\quad = \sum_{t=0}^{n} \frac{C_t - C_t}{E_t - E_t}$$

117. **Three different effectiveness measures were used**: i) PEFA scores; ii) PEFA-10 basics first scores; and iii) CPIA scores. A summary of results is provided at Figure 25 for wide cost scenario, and Figure 26 for a narrow cost scenario. A time-wise approach was used for quantifying different effects Full results are at Attachment N: Cost-Effectiveness Analysis Results on page 103.

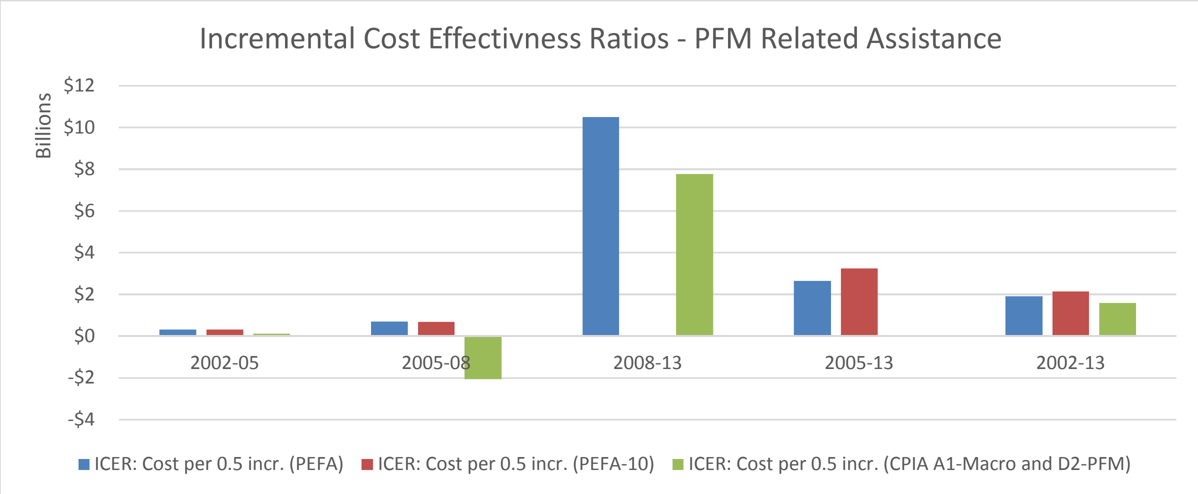
118. **The analysis revealed that in the very early years between 2002 and 2005 (and under narrow cost-base terms) that it costs $35.8m to secure an average half grade improvement in the simple average PEFA score**. This compares favourably to other global estimates of $50m[xxxiv]. However, for the period between 2002 and 2013 under a wide cost-base it is estimated that the costs to secure an average half grade improvement in the simple average PEFA score is $10.5 billion. Under the narrow cost-base the estimate is reduced to just under $200 million (see Figure 25).

119. **Similar results were found using PEFA-10 as the effectiveness measure** (a basics first measure for fiduciary risk). ICERS under the wide cost base method for 2002-05, 2005-08 and 2002-13 were $329m, $679m, and $2,144m respectively. However, between 2008 and 2013, no change was recorded for PEFA-10. (See Figure 25.)

120. **The World Bank CPIA method was found to have lag in assessing PFM quality** when compared to PEFA and PEFA-10. The two key CPIA components used as a proxy for PFM quality are: A.1 Macroeconomic management and D.2 Quality of budgetary and financial management. Between 2005 and 2008, CPIA deteriorated, with macro management going down from 4 to 3.5. This resulted in a negative ICER – which means that in this case donors were giving aid to go backwards in terms of PFM quality. (See Figure 25.)

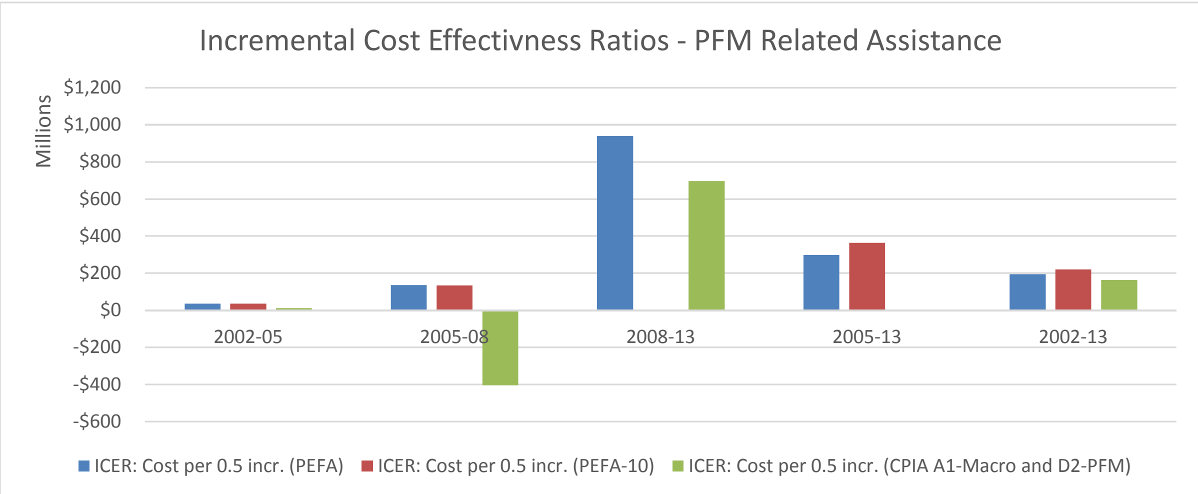
[14] A commonly used outcome measure in CEA is quality-adjusted life years (QALY) as used in the field of health economics.

Figure 25. Systemic Fiduciary and Development Risks 2002-13: Wide-base for costs



Source Data: ODA from four OECD DAC CRS sector classifications: 15110: Public sector policy and adm. Management; 15111: Public finance management; 15112: Decentralisation and support to subnational govt; and 15113: Anti-corruption organisations and institutions. Year of PEFA excluded for disbursements. PEFA from reports adjusted for overly generous scores discovered in future assessments. CPIA 2002 estimated based on Sudan

Figure 26. Systemic Fiduciary and Development Risks 2002-13: Narrow-base for costs



Source Data: ODA from four OECD DAC CRS sector classifications: Public finance management. Year of PEFA excluded for disbursements.

121. **The results reveal that the early years delivered much better value for money** – "much more bang for buck" – than the latter years. That said, it is theoretically easier to produce half grade quality improvements from low baselines. In addition, the latter year's resources were channelled more for public sector management purposes. However, after controlling for only PFM specific funding, the later years still saw a twenty-five fold increase the incremental cost-effectiveness ratio for a half grade increase in the average PEFA score - from $35.8m to $940m.

122. **A cause for the high ICER in the later years was revealed to be a lack of focus of reform programs targeting PEFA improvements.** Moreover, reform plan management focused on PFM themes, as opposed to focusing on managing performance of teams with MOF.

7. Discussion and Next Steps

123. **This document presents various findings** such as that Afghan PFM systems are relatively strong; that systemic fiduciary risks fell quickly between 2003 and 2008 but the speed of improvement slowed down in more recent times. It argued that budget credibility has always been low due to systemic problems with over-budgeting and rigidities in spending controls. It revealed that the financial costs of PFM reform have been relatively high, and have increased significantly in recent times. Almost $6 billion has been invested between 2002 and 2013 to strengthen PFM and public sector management more generally. The paper explained that the trade-off between development risks and fiduciary risks and is linked to the way aid is provided and managed and that corruption risks were found to be persistently high.

124. **That said, this document has not been road tested with anyone** in the leadership group within MoF. Such road-testing is a pre-condition before efforts should be made to transform this paper's diagnosis of the problems, into options for solutions to be expressed through a coherent annualised 5-year rolling PFM reform program and implemented through a team-based performance management oriented approach.

125. **The following seven key next steps are recommended** for MoF to take reform forward:

<u>Step 1:</u> **Road test the findings of the review with the MoF leadership group** to validate the diagnosis of the problems and debate then agree on the solutions – DMs and DGs;

- **Comments from MOF** Policy (and others as determined) received on draft papers **by 2 April** (current version of paper circulated to other MoF areas as determined)
- **Update papers** for comments from President and MoF finalized **by 3 April**.
- **Final papers distributed on 4 April** in preparation for MoF workshop.
- **MoF workshop on 13 April to discuss findings** of the review and kick start PFMR process.
- **Workshop 11 May facilitated discussion** of FRA and PFMR priorities (Andrew and Vin potentially could come back for this).
- **Validation workshop on 25 May to reach consensus** on PFM Roadmap priorities and way forward, including responsibilities and timelines (in preparation for Step 3-7).

<u>Step 2:</u> **Brief donors on progress and give them the opportunity to comment** on technical papers;

- **Provide donors with final papers by 4 April** and ask them for written submission for the 13 April workshop.
- After each workshop brief the donors on progress.

<u>Step 3:</u> **Establish a team to take responsibility for analysing and establishing in-house capacity** for quantifying and tracking quality of Afghan PFM systems and fiduciary risks (monitoring and evaluation);

- **Minister for Finance initiates a process for MoF restructure** that includes DMs and DGs in order to support the PFMR process.
- Proposed structure discussed at 13 April workshop and finalised at 25 May workshop.

<u>Step 4:</u> **Agree with internal and external stakeholders on the key next steps** (steps 5 to 7);

- **Agreement to be reached at the 25 May** workshop including on priorities and responsibilities for Steps 5-7

__Step 5:__ **Start to develop a well-sequenced rolling annualized 5 year rolling PFM Reform program** that clearly outlines actions to be done by each unit within MoF, and sets output targets and specifies aspirational outcome/international benchmarks;

__Step 6:__ **Start with analysing all options for technical and political feasibility** and follow the PEFA – Diamond approach to sequencing PFM reform[xix];

__Step 7:__ **Develop a team based performance management system[xxxiii]** designed to help MoF manage the reform process including through a regular process of rating team performance and integrating the Diamond approach to PFM reform sequencing; and

__Step 8:__ **Work towards more flexible on-budget aid** based on clear understanding of mutual obligations between donors and GoIRA, including based on well tested aid policy framework.

ATTACHMENTS

Attachment A: Fiduciary Risk Ratings

Figure 27. Fiduciary Risks Ratings under PEFA Plus: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	**Aggregate [sector] expenditure out-turn compared to original approved budget**	**S**	**S**	**M**
PI-2	**Composition of [sector] expenditure out-turn compared to original approved budget**	**S**	**S**	**S**
	(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	S	S	S
	(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	S	S	L
PI-3	**Aggregate [sector specific non-tax] revenue out-turn compared to original approved budget**	**S**	**S**	**M**
PI-4	**Stock and monitoring of [sector] expenditure payment arrears**	**H**	**H**	**S**
	(i) Stock of expenditure payment arrears [in the sector] (as a % of actual total expenditure for the corresponding fiscal year) & any recent change in the stock.	S	S	L
	(ii) Availability of data for monitoring the stock of expenditure payment arrears [in the sector]	H	H	S
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	**Classification of the budget [in the sector]**	**L**	**S**	**L**
PI-6	**Comprehensiveness of information included in budget documentation**	**L**	**L**	**L**
PI-7	**Extent of unreported government operations [in the sector]**	**H**	**M**	**M**
	(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in [sector] fiscal reports.	M	M	M
	(ii) Income /expenditure information on donor-funded projects which is included in [sector] fiscal reports.	H	L	L
PI-8	**Transparency of inter-governmental fiscal relations [within the sector]**	**H**	**H**	**S**
	(i) Transparent and rules based systems in the horizontal [sub-sector] allocation among SN governments [institutions] of unconditional and conditional transfers from central {higher level SN} government (both budgeted and actual allocations);	H	H	S
	(ii) Timeliness of reliable information to {lower level} SN governments [sector institutions] on their allocations from central government for the coming year;	H	H	H
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral [sub-sectoral] categories. {Extent to which financial information (at least on revenue and expenditure) is collected and reported by SN government according to sectoral categories.}	H	H	L
PI-9	**Oversight of aggregate fiscal risk from other public sector entities**	**H**	**H**	**H**
	(i) Extent of central {SN} government monitoring of AGAs and PEs.	H	H	H
	(ii) Extent of central {SN} government monitoring of [lower level} SN government's fiscal position	H	L	L
PI-10	**Public access to key [sector specific] fiscal information**	**S**	**M**	**M**
	C. BUDGET CYCLE			
	C (i) Policy based Budgeting			
PI-11	**Orderliness and participation in the annual budget process [within the sector]**	**M**	**M**	**M**
	(i) Existence of and adherence to a fixed budget calendar [consistency of the sector's calendar with that of the Ministry of Finance];	M	M	M
	(ii) Clarity/ comprehensiveness of and political involvement [involvement of sub-sector units] in the guidance on the preparation of budget submissions (budget circular or equivalent);	M	M	M
	(iii) Timely budget approval by the [sector committee in the] legislature or similarly mandated body (within the last three years);	M	M	M
PI-12	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**S**	**M**	**M**
	(i) Preparation of multi -year fiscal forecasts and functional [sub-functional] allocations	S	M	M
	(ii) Scope and frequency of debt sustainability analysis	S	L	L
	(iii) Existence of [detailed] sector strategies with multi-year costing of recurrent and investment expenditure [for sub-sector units and programs];	S	M	M
	(iv) Linkages between [sector] investment budgets and forward expenditure estimates.	S	S	S
	C (ii) Predictability and Control in Budget Execution			
PI-13	**Transparency of taxpayer obligations and liabilities**	**H**	**S**	**S**
	(i) Clarity and comprehensiveness of tax liabilities	S	S	S
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	S	S	M
	(iii) Existence and functioning of a tax appeals mechanism.	H	S	S
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**S**	**M**	**M**
	(i) Controls in the taxpayer registration system.	M	M	M
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	S	M	M
	(iii) Planning and monitoring of tax audit and fraud investigation programs.	H	S	S

	Indicator	2005R	2008R	2013
PI-15	**Effectiveness in collection of tax payments**	**H**	**H**	**H**
	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	H	H	H
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	M	M	L
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	H	H	H
PI-16	**Predictability in the availability of funds for commitment of expenditures [in the sector]**	**H**	**M**	**M**
	(i) Extent to which [sector] cash flows are forecast and monitored	H	L	L
	(ii) Reliability and horizon of periodic in-year information to MDAs [in the sector] on ceilings for expenditure commitment	M	M	M
	(iii) Frequency and transparency of adjustments to [sector] budget allocations, which are decided above the level of management of [sub-sector] MDAs	M	M	M
PI-17	**Recording and management of cash balances, debt and guarantees [in the sector]**	**S**	**M**	**M**
	(i) Quality of debt data recording and reporting [in the sector]	H	M	L
	(ii) Extent of consolidation of the government's [sector] cash balances	S	M	M
	(iii) Systems for contracting loans and issuance of guarantees [in the sector].	L	L	M
PI-18	**Effectiveness of [sector] payroll controls**	**S**	**S**	**M**
	(i) Degree of integration and reconciliation between personnel records and payroll data [in the sector].	S	M	M
	(ii) Timeliness of changes to personnel records and the payroll [in the sector]	S	M	M
	(iii) Internal controls of changes to personnel records and the payroll [in the sector]	S	M	M
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers [in the sector]	S	S	M
PI-19	**Competition, value for money and controls in procurement [in the sector]**	**H**	**S**	**M**
	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	H	S	L
	(ii) Use of competitive procurement methods	M	M	M
	(iii) Public access to complete, reliable and timely procurement information	H	S	L
	(iv) Existence of an independent administrative procurement complaints system.	H	M	M
PI-20	**Effectiveness of internal controls for non-salary expenditure [within the sector]**	**S**	**S**	**S**
	(i) Effectiveness of expenditure commitment controls [within the sector]	S	M	L
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures [within the sector]	S	S	M
	(iii) Degree of compliance with rules for processing and recording transactions [within the sector]	S	S	S
PI-21	**Effectiveness of internal audit [within the sector]**	**S**	**S**	**S**
	(i) Coverage and quality of the internal audit function [within the sector]	S	S	S
	(ii) Frequency and distribution of reports [within the sector]	S	S	S
	(iii) Extent of management response to internal audit findings [within the sector]	S	S	S
	C (iii) Accounting, Recording and Reporting			
PI-22	**Timeliness and regularity of accounts reconciliation [within the sector]**	**S**	**M**	**M**
	(i) Regularity of bank reconciliations [within the sector]	S	M	M
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances [within the sector]	M	M	M
PI-23	**Availability [Collection and processing] of information on resources received by service delivery units [in the sector]**	**H**	**H**	**S**
	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	H	H	S
PI-24	**Quality and timeliness of in-year [sector] budget reports**	**L**	**L**	**L**
	(i) Scope of [sector] reports in terms of coverage and compatibility with budget estimates	L	L	L
	(ii) Timeliness of the issue of [sector] reports	L	L	L
	(iii) Quality of [sectoral] information	L	L	L
PI-25	**Quality and timeliness of annual [sector] financial statements**	**S**	**L**	**M**
	(i) Completeness of the [sector] financial statements	S	M	L
	(ii) Timeliness of submission of the [sector] financial statements	M	M	L
	(iii) Accounting standards used [in the sector]	S	L	M
	C (iv) External Scrutiny and Audit			
PI-26	**Scope, nature and follow-up of external audit**	**S**	**M**	**M**
	(i) Scope/nature of audit performed (incl. adherence to auditing standards) [in the sector]	S	M	M
	(ii) Timeliness of submission of [sector] audit reports to legislature.	M	M	M
	(iii) Evidence of follow up on [sector] audit recommendations.	S	S	S

	Indicator	2005R	2008R	2013
PI-27	**Legislative scrutiny of the annual budget law [by sector committees where applicable]**	**M**	**L**	**L**
	(i) Scope of the legislature's scrutiny [of the sector}	M	L	L
	(ii) Extent to which the legislature's [sectoral committee] procedures are well-established and respected	M	L	L
	(iii) Adequacy of time for the legislature to provide a response to [sector] budget proposals	M	L	L
	(iv) Rules for in-year amendments to the [sector] budget without ex-ante approval by the legislature	M	L	L
PI-28	**Legislative scrutiny of external audit reports [relating to the sector]**	**S**	**M**	**M**
	(i) Timeliness of examination of [sector] audit reports by the legislature (for reports received within the last three years).	S	M	M
	(ii) Extent of hearings on key findings [relating to the sector] undertaken by the legislature.	S	M	M
	(iii) Issuance of recommended actions by the legislature and implementation by the [sector] executive.	S	M	M
	D. Donor Practices		M	
D-1	**Predictability of Direct [sector] Budget Support**	**S**	**L**	**L**
	(i) Annual deviation of actual [sector] budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	S	M	M
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) [for the sector]	S	L	L
D-2	**Financial information [for the sector] provided by donors for budgeting and reporting on project and program aid**	**S**	**S**	**S**
	(i) Completeness and timeliness of budget estimates [for the sector] by donors for project support.	S	S	L
	(ii) Frequency and coverage of reporting [for the sector] by donors on actual donor flows for project support.	S	S	S
D-3	**Proportion of aid that is managed by use of national procedures**	S	S	S
	ADDITIONAL -Non-PEFA INDICATORS			
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI- x	**Transparency of administrative arrangements to support gender perspectives**	**M**	**M**	**M**
	(i) Extent to which gender-aware budget policy appraisal is undertaken (gender disaggregated policy and public expenditure incidence analysis, gender aware budget call circulars, gender-aware budget statement) [in the sector]	M	M	M
	(ii) Access to gender-sensitive fiscal information [in the sector].	M	M	M
	(iii) Existence of functioning gender-aware PFM system administrative arrangements (collection and reporting through: establishment, HR and payroll systems, parliamentary representation and senior official decision maker representation reporting and consolidated gender budget reporting) [in the sector].	M	M	M
	C (i) Policy based Budgeting			
PI-12B	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**H**	**S**	**S**
	(v) Scope and frequency of fiscal sustainability analysis	H	H	M
	(vi) Extent to which costed sector strategies match sector expenditure ceilings from the central government	M	M	M
	C(ii) Predictability and Control in Budget Execution			
HLG-1	**Predictability of Transfers from Higher Level of Government**	**S**	**S**	**M**
	(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	S	S	M
	(ii) Annual variance between actual and estimated transfers of earmarked grants.	S	S	M
	(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	H	H	S
PI - y	**Transparency and effectiveness of administrative arrangements for non-tax revenue**	**H**	**H**	**H**
	(i) Clarity and comprehensiveness of administration of [sector specific] non-tax revenue [including clarity of specific services for which a fee may be charged]	H	S	S
	ii) Effectiveness of measures for natural resource import and export industry registration and licensing	H	H	S
	iii) Effectiveness in collection of non-tax revenue collection (in the sector)	H	H	S
	(iv) [User] Access to information on non-tax revenue [raised in the sector]	H	S	H
	(v) Extent to which authorised fees are not charged	H	H	H
	(vi) Extent to which unauthorised fees are charged	H	H	H
PI-19B	**Competition, value for money and controls in procurement [in the sector]**	**H**	**H**	**H**

	Indicator	2005R	2008R	2013
	(iv) [Extent of active management (revisions and cancellations etc) of contracts based on contractors' performance to ensure continuing value for money]	H	H	H
PI-19C	**Controls in procurement [in the sector]**	**H**	**H**	**H**
	(ii) Extent of procedures in place [in the sector] to monitor compliance and independence in carrying out procurement	H	H	S
	(iii) Extent of procedures in place to identify and address potential conflicts of interest in awarding contracts and carrying out procurement.	H	H	H
PI-19D	**Controls in procured goods [in the sector]**	**H**	**H**	**H**
	(i) Extent of quality inspection and audit at receipt of goods and services procured [in the sector]	H	S	S
	(ii) Extent of adequate storage system and prevention of stock out and theft [in the sector]	H	H	H
	Other			
PI-19AC	**Effectiveness of Anti-Corruption Measures**	**H**	**H**	**H**
	(i) Effectiveness and enforcement of administrative and criminal sanctions (including discipline and referral procedures)	H	H	S
	(ii) The number of the listed elements of anti-corruption measures fulfilled: a) signed and ratified the UN Convention Against Corruption; b) an anti-corruption strategy; c) strategic objectives are clear and being implemented; and d) a clear self-assessment	H	H	S
	(iii) The number of the listed elements for prevention and enforcement fulfilled: a) public sector ethics and asset declarations; b) access to information and whistle-blower protection; c) public education; and d) private sector standards including accounting and auditing standards.	H	H	H
PI-BS	**Compliance with Basel Core Principles**	**H**	**H**	**S**
	(i) Compliance with preconditions for effective banking supervision	H	H	S
	(ii) Compliance with licensing and structure, prudential regulations and requirements and methods of ongoing banking supervision	H	H	S
	(iii) Compliance with information requirements, formal powers of supervisors and cross-border banking	H	H	S
PI-SC	**Capacity for Social and Economic Statistics**	**M**	**M**	**L**
	(i) Compliance with methodology	M	M	L
	(ii) Adequacy of source data	M	M	L
	(iii) Periodicity and timeliness of statistics	L	L	L

R= Revised following review of consistency of scoring following subsequent PEFA assessments. Incudes re-scoring for new methodologies.

Attachment B: Development Risk Ratings

Figure 28. Development Risks Ratings under PEFA Plus: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	**Aggregate [sector] expenditure out-turn compared to original approved budget**	**H**	**H**	**S**
PI-2	**Composition of [sector] expenditure out-turn compared to original approved budget**	**H**	**H**	**H**
	(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	H	H	H
	(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	H	H	L
PI-3	**Aggregate [sector specific non-tax] revenue out-turn compared to original approved budget**	**S**	**S**	**M**
PI-4	**Stock and monitoring of [sector] expenditure payment arrears**	**H**	**H**	**S**
	(i) Stock of expenditure payment arrears [in the sector] (as a % of actual total expenditure for the corresponding fiscal year) & any recent change in the stock.	S	S	L
	(ii) Availability of data for monitoring the stock of expenditure payment arrears [in the sector]	H	H	S
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	**Classification of the budget [in the sector]**	**S**	**S**	**S**
PI-6	**Comprehensiveness of information included in budget documentation**	**S**	**M**	**S**
PI-7	**Extent of unreported government operations [in the sector]**	**H**	**M**	**M**
	(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in [sector] fiscal reports.	M	M	M
	(ii) Income /expenditure information on donor-funded projects which is included in [sector] fiscal reports.	H	L	L
PI-8	**Transparency of inter-governmental fiscal relations [within the sector]**	**H**	**H**	**S**
	(i) Transparent and rules based systems in the horizontal [sub-sector] allocation among SN governments [institutions] of unconditional and conditional transfers from central {higher level SN} government (both budgeted and actual allocations);	H	H	S
	(ii) Timeliness of reliable information to {lower level} SN governments [sector institutions] on their allocations from central government for the coming year;	H	H	H
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral [sub-sectoral] categories. {Extent to which financial information (at least on revenue and expenditure) is collected and reported by SN government according to sectoral categories.}	H	H	L
PI-9	**Oversight of aggregate fiscal risk from other public sector entities**	**H**	**H**	**H**
	(i) Extent of central {SN} government monitoring of AGAs and PEs.	H	H	H
	(ii) Extent of central {SN} government monitoring of [lower level} SN government's fiscal position	H	L	L
PI-10	**Public access to key [sector specific] fiscal information**	**S**	**M**	**M**
	C. BUDGET CYCLE			
	C (i) Policy based Budgeting			
PI-11	**Orderliness and participation in the annual budget process [within the sector]**	**S**	**S**	**S**
	(i) Existence of and adherence to a fixed budget calendar [consistency of the sector's calendar with that of the Ministry of Finance];	S	M	M
	(ii) Clarity/ comprehensiveness of and political involvement [involvement of sub-sector units] in the guidance on the preparation of budget submissions (budget circular or equivalent);	S	M	S
	(iii) Timely budget approval by the [sector committee in the] legislature or similarly mandated body (within the last three years);	S	S	S
PI-12	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**H**	**S**	**S**
	(i) Preparation of multi -year fiscal forecasts and functional [sub-functional] allocations	H	S	S
	(ii) Scope and frequency of debt sustainability analysis	S	L	L
	(iii) Existence of [detailed] sector strategies with multi-year costing of recurrent and investment expenditure [for sub-sector units and programs];	H	M	S
	(iv) Linkages between [sector] investment budgets and forward expenditure estimates.	H	H	H
	C (ii) Predictability and Control in Budget Execution			
PI-13	**Transparency of taxpayer obligations and liabilities**	**H**	**S**	**S**
	(i) Clarity and comprehensiveness of tax liabilities	S	S	S
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	S	S	M
	(iii) Existence and functioning of a tax appeals mechanism.	H	S	S
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**S**	**M**	**M**
	(i) Controls in the taxpayer registration system.	M	M	M
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	S	M	M
	(iii) Planning and monitoring of tax audit and fraud investigation programs.	S	M	M

	Indicator	2005R	2008R	2013
PI-15	**Effectiveness in collection of tax payments**	**H**	**H**	**H**
	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	S	S	S
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	M	M	L
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	S	S	S
PI-16	**Predictability in the availability of funds for commitment of expenditures [in the sector]**	**H**	**M**	**M**
	(i) Extent to which [sector] cash flows are forecast and monitored	H	L	L
	(ii) Reliability and horizon of periodic in-year information to MDAs [in the sector] on ceilings for expenditure commitment	M	M	M
	(iii) Frequency and transparency of adjustments to [sector] budget allocations, which are decided above the level of management of [sub-sector] MDAs	M	M	M
PI-17	**Recording and management of cash balances, debt and guarantees [in the sector]**	**S**	**M**	**M**
	(i) Quality of debt data recording and reporting [in the sector]	H	M	L
	(ii) Extent of consolidation of the government's [sector] cash balances	S	M	M
	(iii) Systems for contracting loans and issuance of guarantees [in the sector].	L	L	M
PI-18	**Effectiveness of [sector] payroll controls**	**S**	**S**	**M**
	(i) Degree of integration and reconciliation between personnel records and payroll data [in the sector].	S	M	M
	(ii) Timeliness of changes to personnel records and the payroll [in the sector]	S	M	M
	(iii) Internal controls of changes to personnel records and the payroll [in the sector]	S	M	M
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers [in the sector]	S	S	M
PI-19	**Competition, value for money and controls in procurement [in the sector]**	**H**	**S**	**M**
	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	H	S	L
	(ii) Use of competitive procurement methods	M	M	M
	(iii) Public access to complete, reliable and timely procurement information	H	S	L
	(iv) Existence of an independent administrative procurement complaints system.	H	M	M
PI-20	**Effectiveness of internal controls for non-salary expenditure [within the sector]**	**S**	**S**	**S**
	(i) Effectiveness of expenditure commitment controls [within the sector]	S	M	L
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures [within the sector]	S	S	M
	(iii) Degree of compliance with rules for processing and recording transactions [within the sector]	S	S	S
PI-21	**Effectiveness of internal audit [within the sector]**	**M**	**M**	**M**
	(i) Coverage and quality of the internal audit function [within the sector]	M	M	M
	(ii) Frequency and distribution of reports [within the sector]	M	M	M
	(iii) Extent of management response to internal audit findings [within the sector]	S	S	S
	C (iii) Accounting, Recording and Reporting			
PI-22	**Timeliness and regularity of accounts reconciliation [within the sector]**	**S**	**M**	**M**
	(i) Regularity of bank reconciliations [within the sector]	S	M	M
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances [within the sector]	M	M	M
PI-23	**Availability [Collection and processing] of information on resources received by service delivery units [in the sector]**	**H**	**H**	**S**
	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	H	H	S
PI-24	**Quality and timeliness of in-year [sector] budget reports**	**L**	**L**	**L**
	(i) Scope of [sector] reports in terms of coverage and compatibility with budget estimates	L	L	L
	(ii) Timeliness of the issue of [sector] reports	L	L	L
	(iii) Quality of [sectoral] information	L	L	L
PI-25	**Quality and timeliness of annual [sector] financial statements**	**S**	**L**	**M**
	(i) Completeness of the [sector] financial statements	S	M	L
	(ii) Timeliness of submission of the [sector] financial statements	M	M	L
	(iii) Accounting standards used [in the sector]	S	L	M
	C (iv) External Scrutiny and Audit			
PI-26	**Scope, nature and follow-up of external audit**	**H**	**S**	**S**
	(i) Scope/nature of audit performed (incl. adherence to auditing standards) [in the sector]	H	S	S
	(ii) Timeliness of submission of [sector] audit reports to legislature.	M	M	M
	(iii) Evidence of follow up on [sector] audit recommendations.	S	S	S

	Indicator	2005R	2008R	2013
PI-27	**Legislative scrutiny of the annual budget law [by sector committees where applicable]**	**S**	**L**	**L**
	(i) Scope of the legislature's scrutiny [of the sector}	M	L	L
	(ii) Extent to which the legislature's [sectoral committee] procedures are well-established and respected	S	M	L
	(iii) Adequacy of time for the legislature to provide a response to [sector] budget proposals	S	M	M
	(iv) Rules for in-year amendments to the [sector] budget without ex-ante approval by the legislature	M	L	L
PI-28	**Legislative scrutiny of external audit reports [relating to the sector]**	**H**	**S**	**S**
	(i) Timeliness of examination of [sector] audit reports by the legislature (for reports received within the last three years).	H	M	S
	(ii) Extent of hearings on key findings [relating to the sector] undertaken by the legislature.	H	S	S
	(iii) Issuance of recommended actions by the legislature and implementation by the [sector] executive.	H	M	M
	D. Donor Practices		H	S
D-1	**Predictability of Direct [sector] Budget Support**	**H**	**M**	**M**
	(i) Annual deviation of actual [sector] budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	H	M	M
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) [for the sector]	H	L	L
D-2	**Financial information [for the sector] provided by donors for budgeting and reporting on project and program aid**	**H**	**H**	**H**
	(i) Completeness and timeliness of budget estimates [for the sector] by donors for project support.	H	H	L
	(ii) Frequency and coverage of reporting [for the sector] by donors on actual donor flows for project support.	H	H	H
D-3	**Proportion of aid that is managed by use of national procedures**	**H**	**H**	**H**
	ADDITIONAL -Non-PEFA INDICATORS			
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI- x	**Transparency of administrative arrangements to support gender perspectives**	**S**	**S**	**S**
	(i) Extent to which gender-aware budget policy appraisal is undertaken (gender disaggregated policy and public expenditure incidence analysis, gender aware budget call circulars, gender-aware budget statement) [in the sector]	S	S	S
	(ii) Access to gender-sensitive fiscal information [in the sector].	S	S	S
	(iii) Existence of functioning gender-aware PFM system administrative arrangements (collection and reporting through: establishment, HR and payroll systems, parliamentary representation and senior official decision maker representation reporting and consolidated gender budget reporting) [in the sector].	S	S	S
	C (i) Policy based Budgeting			
PI-12B	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**H**	**H**	**S**
	(v) Scope and frequency of fiscal sustainability analysis	H	H	M
	(vi) Extent to which costed sector strategies match sector expenditure ceilings from the central government	H	H	H
	C(ii) Predictability and Control in Budget Execution			
HLG-1	**Predictability of Transfers from Higher Level of Government**	**H**	**H**	**S**
	(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	H	H	S
	(ii) Annual variance between actual and estimated transfers of earmarked grants.	S	S	M
	(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	H	H	S
PI - y	**Transparency and effectiveness of administrative arrangements for non-tax revenue**	**H**	**H**	**H**
	(i) Clarity and comprehensiveness of administration of [sector specific] non-tax revenue [including clarity of specific services for which a fee may be charged]	H	S	S
	ii) Effectiveness of measures for natural resource import and export industry registration and licensing	H	H	S
	iii) Effectiveness in collection of non-tax revenue collection (in the sector)	H	H	S
	(iv) [User] Access to information on non-tax revenue [raised in the sector]	H	S	H
	(v) Extent to which authorised fees are not charged	H	H	H
	(vi) Extent to which unauthorised fees are charged	H	H	H
PI-19B	**Competition, value for money and controls in procurement [in the sector]**	**H**	**H**	**H**

	Indicator	2005R	2008R	2013
	(iv) [Extent of active management (revisions and cancellations etc) of contracts based on contractors' performance to ensure continuing value for money]	H	H	H
PI-19C	**Controls in procurement [in the sector]**	**H**	**H**	**H**
	(ii) Extent of procedures in place [in the sector] to monitor compliance and independence in carrying out procurement	H	H	S
	(iii) Extent of procedures in place to identify and address potential conflicts of interest in awarding contracts and carrying out procurement.	H	H	H
PI-19D	**Controls in procured goods [in the sector]**	**H**	**H**	**H**
	(i) Extent of quality inspection and audit at receipt of goods and services procured [in the sector]	H	S	S
	(ii) Extent of adequate storage system and prevention of stock out and theft [in the sector]	H	H	H
	Other			
PI-19AC	**Effectiveness of Anti-Corruption Measures**	**H**	**H**	**H**
	(i) Effectiveness and enforcement of administrative and criminal sanctions (including discipline and referral procedures)	H	H	S
	(ii) The number of the listed elements of anti-corruption measures fulfilled: a) signed and ratified the UN Convention Against Corruption; b) an anti-corruption strategy; c) strategic objectives are clear and being implemented; and d) a clear self-assessment	H	H	S
	(iii) The number of the listed elements for prevention and enforcement fulfilled: a) public sector ethics and asset declarations; b) access to information and whistle-blower protection; c) public education; and d) private sector standards including accounting and auditing standards.	H	H	H
PI-BS	**Compliance with Basel Core Principles**	**H**	**H**	**S**
	(i) Compliance with preconditions for effective banking supervision	H	H	S
	(ii) Compliance with licensing and structure, prudential regulations and requirements and methods of ongoing banking supervision	H	H	S
	(iii) Compliance with information requirements, formal powers of supervisors and cross-border banking	H	H	S
PI-SC	**Capacity for Social and Economic Statistics**	**H**	**H**	**S**
	(i) Compliance with methodology	H	H	S
	(ii) Adequacy of source data	H	H	S
	(iii) Periodicity and timeliness of statistics	M	M	M

R= Revised following review of consistency of scoring following subsequent PEFA assessments. Incudes re-scoring for new methodologies.

Attachment C: Raw PEFA Plus Scores – unadjusted for risk importance

Figure 29. PEFA Plus Scores: 2005, 2008 and 2013.

	Indicator	2005R	2008R	2013
	A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	**Aggregate expenditure out-turn compared to original approved budget**	**D**	**D**	**C**
	(i) The difference between actual primary [sector] expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	D	D	C
PI-2	**Composition of expenditure out-turn compared to original approved budget**	***D***	**D**	**D+**
	(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	D
	(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	D	D	A
PI-3	**Aggregate revenue out-turn compared to original approved budget**	**D**	**D**	**C**
	(i) Actual domestic [sector specific non-tax] revenue collection compared to domestic revenue estimates in the original, approved budget.	D	D	C
PI-4	**Stock and monitoring of expenditure payment arrears**	***D+***	**D+**	**C+**
	(i) Stock of expenditure payment arrears (as a % of actual total expenditure for the corresponding fiscal year) & any recent change in the stock.	***C***	C	A
	(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	C
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	**Classification of the budget**	**C**	**C**	**C**
	(i) The classification system used for formulation, execution and reporting of the central {SN} government's budget [for the sector].	C	C	C
PI-6	**Comprehensiveness of information included in budget documentation**	**C**	**B**	**C**
	(i) Share of the listed information in the budget documentation most recently issued by the central {SN} government {sector Minister}	C	B	C
PI-7	**Extent of unreported government operations**	**D+**	**B+**	**B+**
	(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	B	B	B
	(ii) Income /expenditure information on donor-funded {sector} projects which is included in fiscal reports.	D	A	A
PI-8	**Transparency of inter-governmental fiscal relations**	***D***	**D**	***C+***
	(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	D	D	C
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;	D	D	D
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	D	D	A
PI-9	**Oversight of aggregate fiscal risk from other public sector entities**	**D**	**D+**	**D+**
	(i) Extent of central government monitoring of AGAs and PEs.	D	D	D
	(ii) Extent of central government monitoring of SN government's fiscal position	D	A	A
PI-10	**Public access to key fiscal information**	**C**	**B**	**B**
	(i) Number of the listed elements of public access to information that is fulfilled	C	B	B
	C. BUDGET CYCLE			
	C(i) Policy based Budgeting			
PI-11	**Orderliness and participation in the annual budget process**	**C**	**B**	**C+**
	(i) Existence of and adherence to a fixed budget calendar;	C	B	B
	(ii) Clarity/ comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	C	B	C
	(iii) Timely budget approval by the legislature or similarly mandated body {or Sector Minister} (within the last three years);	C	C	C
PI-12	**Multi-year perspective in fiscal planning, expenditure policy and budgeting**	**D+**	**C+**	**C+**
	(i) Preparation of multi -year fiscal forecasts and functional allocations	D	C	C
	(ii) Scope and frequency of debt sustainability analysis	C	A	A
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure;	D	B	C
	(iv) Linkages between investment budgets and forward expenditure estimates.	D	D	D

	C(ii) Predictability and Control in Budget Execution			
PI-13	**Transparency of taxpayer obligations and liabilities**	**D+**	**C**	**C+**
	(i) Clarity and comprehensiveness of tax liabilities	C	C	C
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	C	C	B
	(iii) Existence and functioning of a tax appeals mechanism.	D	C	C
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**D+**	**C**	**C+**
	(i) Controls in the taxpayer registration system.	C	C	B
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	C	C
	(iii) Planning and monitoring of tax audit and fraud investigation programs.	D	C	C
PI-15	**Effectiveness in collection of tax payments**	**D+**	**D+**	**D+**
	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	D	D	D
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	B	A
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	D	D	D
PI-16	**Predictability in the availability of funds for commitment of expenditures**	**D+**	**B+**	**B+**
	(i) Extent to which cash flows are forecast and monitored.	D	A	A
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	B	B
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	B	B	B
PI-17	**Recording and management of cash balances, debt and guarantees**	**C+**	**B+**	**B+**
	(i) Quality of debt data recording and reporting	D	B	A
	(ii) Extent of consolidation of the government's cash balances	C	B	B
	(iii) Systems for contracting loans and issuance of guarantees.	A	A	B
PI-18	**Effectiveness of payroll controls**	**C**	**C+**	**B**
	(i) Degree of integration and reconciliation between personnel records and payroll data.	C	B	B
	(ii) Timeliness of changes to personnel records and the payroll	C	B	B
	(iii) Internal controls of changes to personnel records and the payroll.	C	B	B
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	C	C	B
PI-19	**Competition, value for money and controls in procurement**	**D+**	**C+**	**B+**
i and ii	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	D	C	A
i and ii	(ii) Use of competitive procurement methods	B	B	B
	(iii) Public access to complete, reliable and timely procurement information	D	*C*	A
iii	iv) Existence of an independent administrative procurement complaints system.	D	B	B
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**C**	**C+**	**C+**
	(i) Effectiveness of expenditure commitment controls.	C	B	A
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	C	B
	(iii) Degree of compliance with rules for processing and recording transactions	C	C	C
PI-21	**Effectiveness of internal audit**	**C**	**C**	**C**
	(i) Coverage and quality of the internal audit function.	C	C	C
	(ii) Frequency and distribution of reports	C	C	C
	(iii) Extent of management response to internal audit findings	C	C	C
	C(iii) Accounting, Recording and Reporting			
PI-22	**Timeliness and regularity of accounts reconciliation**	**C+**	**B**	**B**
	(i) Regularity of bank reconciliations	C	B	B
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	B	B	B
PI-23	**Availability of information on resources received by service delivery units**	**D**	**D**	**C**
	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	D	D	C
PI-24	**Quality and timeliness of in-year budget reports**	**C**	**C+**	**C+**
	(i) Scope of {sector} reports in terms of coverage and compatibility with budget estimates	C	C	C
	(ii) Timeliness of the issue of reports	C	A	A
	(iii) Quality of information	C	A	A
PI-25	**Quality and timeliness of annual financial statements**	**D+**	**B+**	**C+**
	(i) Completeness of the financial statements	D	B	A
	(ii) Timeliness of submission of the financial statements	C	B	A
	(iii) Accounting standards used	D	A	C

	C(iv) External Scrutiny and Audit			
PI-26	**Scope, nature and follow-up of external audit**	**D+**	**C**	**C+**
	(i) Scope/nature of audit performed (incl. adherence to auditing standards).	D	C	C
	(ii) Timeliness of submission of audit reports to legislature.	C	C	B
	(iii) Evidence of follow up on audit recommendations.	C	C	C
PI-27	**Legislative scrutiny of the annual budget law**	**D**	**B+**	**B+**
	(i) Scope of the legislature's scrutiny.	D	A	B
	(ii) Extent to which the legislature's procedures are well-established and respected.	D	B	A
	(iii) Adequacy of time for the legislature to provide a response to budget proposals .	D	B	B
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	D	A	B
PI-28	**Legislative scrutiny of external audit reports**	**D**	**C+**	**C+**
	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	D	B	C
	(ii) Extent of hearings on key findings undertaken by the legislature.	D	C	C
	(iii) Issuance of recommended actions by the legislature and implementation by the executive.	D	B	B
	D. DONOR PRACTICES			
D-1	**Predictability of Direct Budget Support**	**D**	**B+**	**B+**
	(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	D	B	B
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	A	A
D-2	**Financial information provided by donors for budgeting and reporting on project and program aid**	**D**	**D**	**D+**
	(i) Completeness and timeliness of budget estimates by donors for project support.	D	D	A
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	D	D	D
D-3	**Proportion of aid that is managed by use of national procedures**	**D**	**D**	**D**
	(i) Overall proportion of aid funds to central government that are managed through national procedures (procurement, payment/ accounting, audit and reporting)	D	D	D
	ADDITIONAL - NON-PEFA INDICATORS			
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-x	**Transparency of administrative arrangements to support gender perspectives**	**D**	**D**	**D**
	(i) Extent to which gender-aware budget policy appraisal is undertaken (gender disaggregated policy and public expenditure incidence analysis, gender aware budget call circulars, gender-aware budget statement) [in the sector]	D	D	D
	(ii) Access to gender-sensitive fiscal information [in the sector].	D	D	D
	(iii) Existence of functioning gender-aware PFM system administrative arrangements (collection and reporting through: establishment, HR and payroll systems, parliamentary representation and senior official decision maker representation reporting and consolidated gender budget reporting) [in the sector].	D	D	D
	C (i) Policy based Budgeting			
PI-12B	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**D**	**D**	**D+**
	(v) Scope and frequency of fiscal sustainability analysis	D	D	B
	(vi) Extent to which costed sector strategies match sector expenditure ceilings from the central government	D	D	D
	C(ii) Predictability and Control in Budget Execution			
HLG-1	**Predictability of Transfers from Higher Level of Government**	**D**	**D**	**C**
	(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	D	D	C
	(ii) Annual variance between actual and estimated transfers of earmarked grants.	D	D	C
	(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	D	D	C
PI-y	**Transparency and effectiveness of administrative arrangements for non-tax revenue**	**D**	**D+**	**D+**
	(i) Clarity and comprehensiveness of administration of [sector specific] non-tax revenue [including clarity of specific services for which a fee may be charged]	D	C	C
	ii) Effectiveness of measures for natural resource import and export industry registration and licensing	D	D	C
	iii) Effectiveness in collection of non-tax revenue collection (in the sector)	D	D	C
	(iv) [User] Access to information on non-tax revenue [raised in the sector]	D	C	D
	(v) Extent to which authorised fees are not charged	D	D	D
	(vi) Extent to which unauthorised fees are charged	D	D	D
PI-19B	**Competition, value for money and controls in procurement [in the sector]**	**D**	**D**	**D**

	(iv) [Extent of active management (revisions and cancellations etc) of contracts based on contractors' performance to ensure continuing value for money]	D	D	D
PI-19C	**Controls in procurement [in the sector]**	**D**	**C+**	**D+**
	(ii) Extent of procedures in place [in the sector] to monitor compliance and independence in carrying out procurement	D	D	C
	(iii) Extent of procedures in place to identify and address potential conflicts of interest in awarding contracts and carrying out procurement.	D	D	D
PI-19D	**Controls in procured goods [in the sector]**	**D**	**D+**	**D+**
	(i) Extent of quality inspection and audit at receipt of goods and services procured [in the sector]	D	C	C
	(ii) Extent of adequate storage system and prevention of stock out and theft [in the sector]	D	D	D
	Other			
PI-19AC	**Effectiveness of Anti-Corruption Measures**	**D**	**D**	**D+**
	(i) Effectiveness and enforcement of administrative and criminal sanctions (including discipline and referral procedures)	D	D	C
	(ii) The number of the listed elements of anti-corruption measures fulfilled: a) signed and ratified the UN Convention Against Corruption; b) an anti-corruption strategy; c) strategic objectives are clear and being implemented; and d) a clear self-assessment	D	D	C
	(iii) The number of the listed elements for prevention and enforcement fulfilled: a) public sector ethics and asset declarations; b) access to information and whistle-blower protection; c) public education; and d) private sector standards including accounting and auditing standards.	D	D	D
PI-BS	**Compliance with Basel Core Principles**	**D**	**D**	**C**
	(i) Compliance with preconditions for effective banking supervision	D	D	C
	(ii) Compliance with licensing and structure, prudential regulations and requirements and methods of ongoing banking supervision	D	D	C
	(iii) Compliance with information requirements, formal powers of supervisors and cross-border banking	D	D	C
PI-SC	**Capacity for Social and Economic Statistics**	**D+**	**D+**	**C+**
	(i) Compliance with methodology	D	D	C
	(ii) Adequacy of source data	D	D	C
	(iii) Periodicity and timeliness of statistics	B	B	B

R= Revised following review of consistency of scoring following subsequent PEFA assessments. Incudes re-scoring for new methodologies. Some scores were revealed to be overly generous or overly harsh in subsequent PEFA Assessments.

Figure 30. Unadjusted Raw PEFA Scores: 2005, 2008 and 2013 (PEFA Secretariat)

Indicator	Description	Afghanistan	Afghanistan	Afghanistan
Web Link		View on Web	View on Web	View on Web
Type		National	National	National
Version		Public	Public	Public
Date		**Dec-05**	**Jun-08**	**Aug-13**
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	D	C
PI-1	(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding	C	D	C
PI-2	Composition of expenditure out-turn compared to original approved budget	C	D	D+
PI-2	(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items (the methodology to rate this dimension is set out in the footnote of the PFM PMF booklet)	C	D	D
PI-2	(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	NU	NU	A
PI-3	Aggregate revenue out-turn compared to original approved budget	A	A	C
PI-3	(i) Actual domestic revenue collection compared to domestic revenue in the originally approved budget	A	A	C
PI-4	Stock and monitoring of expenditure payment arrears	C	D+	C+
PI-4	(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	NR	C	A
PI-4	(ii) Availability of data for monitoring the stock of expenditure payment arrears	NR	D	C
PI-5	Classification of the budget	C+	C	C
PI-5	(i) The classification system used for formulation, execution and reporting of the central government's budget	C+	C	C
PI-6	Comprehensiveness of information included in budget documentation	C	B	C
PI-6	(i) Share of the listed information under PI-6 in the PFM PMF booklet in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)	C	B	C
PI-7	Extent of unreported government operations	B	B+	NR
PI-7	(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	NR	B	NR
PI-7	(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	NR	A	A
PI-8	Transparency of inter-governmental fiscal relations	D	D	A
PI-8	(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	D	D	NA
PI-8	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;	D	D	NA
PI-8	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	D	D	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	NR	A	D+
PI-9	(i) Extent of central government monitoring of AGAs and PEs.	NR	D	D
PI-9	(ii) Extent of central government monitoring of SN government's fiscal position			A
PI-10	Public access to key fiscal information	C	B	B
PI-10	(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	C	B	B
PI-11	Orderliness and participation in the annual budget process	C	B	C+
PI-11	(i) Existence of and adherence to a fixed budget calendar;	C	B	B

Indicator	Description	Afghanistan	Afghanistan	Afghanistan
Web Link		View on Web	View on Web	View on Web
Type		National	National	National
Version		Public	Public	Public
Date		**Dec-05**	**Jun-08**	**Aug-13**
PI-11	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	C	B	C
PI-11	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);	C	C	C
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	C	C+
PI-12	(i) Preparation of multi -year fiscal forecasts and functional allocations	D	C	C
PI-12	(ii) Scope and frequency of debt sustainability analysis	C	A	A
PI-12	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure;	C	B	C
PI-12	(iv) Linkages between investment budgets and forward expenditure estimates.			D
PI-13	Transparency of taxpayer obligations and liabilities	D+	C	C+
PI-13	(i) Clarity and comprehensiveness of tax liabilities	C	C	C
PI-13	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	C	C	B
PI-13	(iii) Existence and functioning of a tax appeals mechanism.	D	C	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D	C	C+
PI-14	(i) Controls in the taxpayer registration system.	C	C	B
PI-14	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations			C
PI-14	(iii) Planning and monitoring of tax audit and fraud investigation programs.	D	C	C
PI-15	Effectiveness in collection of tax payments	D+	D+	NR
PI-15	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	NR	D	NR
PI-15	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	NR	B	A
PI-15	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	NR	D	D
PI-16	Predictability in the availability of funds for commitment of expenditures	NR	A	B+
PI-16	(i) Extent to which cash flows are forecast and monitored.			A
PI-16	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	NR	B	B
PI-16	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	NR	B	B
PI-17	Recording and management of cash balances, debt and guarantees	C+	B+	B+
PI-17	(i) Quality of debt data recording and reporting	D	B	A
PI-17	(ii) Extent of consolidation of the government's cash balances	C	B	B
PI-17	(iii) Systems for contracting loans and issuance of guarantees.	A	A	B
PI-18	Effectiveness of payroll controls	C	C+	B
PI-18	(i) Degree of integration and reconciliation between personnel records and payroll data.	NU	B	B
PI-18	(ii) Timeliness of changes to personnel records and the payroll	NU	B	B
PI-18	(iii) Internal controls of changes to personnel records and the payroll.	NU	B	B
PI-18	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	NU	C	B
PI-19	Transparency, competition and complaints mechanisms in procurement	B	B	B+
PI-19	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	A	B	A
PI-19	(ii) Use of competitive procurement methods	B	B	B

Indicator	Description	Afghanistan	Afghanistan	Afghanistan
Web Link		View on Web	View on Web	View on Web
Type		National	National	National
Version		Public	Public	Public
Date		**Dec-05**	**Jun-08**	**Aug-13**
PI-19	(iii) Public access to complete, reliable and timely procurement information	D	B	A
PI-19	(iv) Existence of an independent administrative procurement complaints system	NU	NU	B
PI-20	Effectiveness of internal controls for non-salary expenditure	C	C+	C+
PI-20	(i) Effectiveness of expenditure commitment controls.	NU	B	A
PI-20	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	NU	C	B
PI-20	(iii) Degree of compliance with rules for processing and recording transactions	NU	C	C
PI-21	Effectiveness of internal audit	C	C	C
PI-21	(i) Coverage and quality of the internal audit function.	NR	C	C
PI-21	(ii) Frequency and distribution of reports	NR	C	C
PI-21	(iii) Extent of management response to internal audit findings.	NR	C	C
PI-22	Timeliness and regularity of accounts reconciliation	C+	B	B
PI-22	(i) Regularity of bank reconciliations	C	B	B
PI-22	(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	B	B	B
PI-23	Availability of information on resources received by service delivery units	D	D	C
PI-23	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	D	D	C
PI-24	Quality and timeliness of in-year budget reports	C	C+	C+
PI-24	(i) Scope of reports in terms of coverage and compatibility with budget estimates	NU	C	C
PI-24	(ii) Timeliness of the issue of reports	NU	A	A
PI-24	(iii) Quality of information	NU	A	A
PI-25	Quality and timeliness of annual financial statements	C	B+	C+
PI-25	(i) Completeness of the financial statements	NU	B	A
PI-25	(ii) Timeliness of submission of the financial statements	NU	B	A
PI-25	(iii) Accounting standards used	NU	A	C
PI-26	Scope, nature and follow-up of external audit	C	C	C+
PI-26	(i) Scope/nature of audit performed (incl. adherence to auditing standards).	NU	C	C
PI-26	(ii) Timeliness of submission of audit reports to legislature.	NU	C	B
PI-26	(iii) Evidence of follow up on audit recommendations.	NU	C	C
PI-27	Legislative scrutiny of the annual budget law	D	B+	B+
PI-27	(i) Scope of the legislature's scrutiny.	NR	A	B
PI-27	(ii) Extent to which the legislature's procedures are well-established and respected.	NR	B	A
PI-27	(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	NR	B	B
PI-27	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	NR	A	B
PI-28	Legislative scrutiny of external audit reports	D	C+	C+
PI-28	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	NR	B	C
PI-28	(ii) Extent of hearings on key findings undertaken by the legislature.	NR	C	C
PI-28	(iii) Issuance of recommended actions by the legislature and implementation by the executive.	NR	B	B
D-1	Predictability of Direct Budget Support	A	B+	B+
D-1	(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the	NU	B	B

Indicator	Description	Afghanistan	Afghanistan	Afghanistan
Web Link		View on Web	View on Web	View on Web
Type		National	National	National
Version		Public	Public	Public
Date		**Dec-05**	**Jun-08**	**Aug-13**
	government submitting its budget proposals to the legislature (or equivalent approving body).			
D-1	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	NU	A	A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	D	D+
D-2	(i) Completeness and timeliness of budget estimates by donors for project support.	NU	D	A
D-2	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	NU	D	D
D-3	Proportion of aid that is managed by use of national procedures	D	D	D
D-3	(i) Overall proportion of aid funds to central government that are managed through national procedures	D	D	D
HLG-1	Predictability of Transfers from Higher Level of Government			
HLG-1	(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.			
HLG-1	(ii) Annual variance between actual and estimated transfers of earmarked grants.			
HLG-1	(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)			

Source: PEFA Secretariat Database

Attachment D: Budget Deviation Trends by Administrative Unit

Figure 31. Operating Budget: Deviation of Outcome from Budget (%) by Admin Unit

	1385	1385	1385	1385	1385	1385	1385	1385	1385
Presidents Office	7%	4%	30%	4%	9%	8%	7%	4%	14%
National Assembly Meshanr	20%	1%	2%	13%	5%	0%	2%	4%	3%
National Assembly Wolesi Ji	246%	2%	5%	42%	10%	0%	2%	0%	3%
Administrative Affairs	17%	5%	362%	385%	2%	4%	5%	3%	9%
Supreme Court	12%	6%	44%	21%	5%	1%	2%	2%	1%
Presidential Protective Servi	34%	4%	42%	35%	1%	3%	2%	2%	3%
Wolesi Jirga	n/a	3%	n/a	n/a	n/a	n/a	n/a	n/a	15%
National Security Council	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0%
Afghanistan fotball federatio	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	46%
Ministry of Finance	56%	17%	67%	20%	5%	4%	3%	6%	11%
Ministry of State and Parlian	100%	n/a	n/a	25%	8%	4%	4%	3%	8%
Ministry of Defence	24%	16%	15%	45%	1%	10%	27%	20%	36%
Ministry of Foreign Affairs	2%	0%	4%	19%	20%	3%	5%	1%	4%
Ministry of Haj and Religious	17%	6%	19%	3%	40%	2%	8%	7%	14%
Ministry of Commerce	13%	5%	1324%	66%	3%	3%	8%	2%	5%
Ministry of Interior	3%	13%	5%	8%	1%	1%	13%	7%	13%
Ministry of Education	9%	1%	40%	11%	5%	1%	1%	1%	3%
Ministry of Higher Education	15%	1%	2%	0%	1%	1%	6%	1%	5%
Ministry of Refugees and Re	14%	2%	6%	7%	2%	2%	10%	4%	5%
Local Government	n/a	27%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ministry of Mines and Indust	5%	9%	4%	4%	1%	2%	6%	5%	7%
Ministry of Communication	49%	1%	5%	6%	4%	2%	4%	7%	7%
Ministry of Economy	17%	22%	11%	7%	24%	17%	13%	10%	21%
Ministry of Information and	14%	3%	11%	6%	2%	3%	11%	5%	6%
Ministry of Public Health	9%	2%	21%	1%	7%	13%	10%	10%	0%
Ministry of Women Affairs	23%	2%	7%	8%	11%	3%	13%	5%	14%
Ministry of Agriculture	11%	2%	45%	168%	6%	3%	6%	8%	2%
Ministry of Energy and Wate	580%	0%	765%	85%	2%	4%	7%	21%	8%
Ministry of Public Works	33%	2%	181%	212%	20%	10%	6%	4%	17%
Ministry of Rural Rehabilitat	6%	3%	76%	61%	4%	3%	4%	9%	5%
Civil Aviation Authority	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	21%
Ministry of Transport and Av	19%	8%	3%	15%	4%	5%	3%	3%	10%
Ministry of Frontiers and Tri	13%	2%	1%	5%	2%	2%	6%	10%	18%
Ministry of Martyrs, Disable	347%	1%	526%	392%	19%	1%	2%	1%	6%
Ministry of Counter Narcotic	n/a	n/a	2%	2%	9%	14%	2%	1%	2%
Ministry of Urban Developm	199%	7%	8%	32%	3%	5%	9%	8%	11%
Ministry of Justice	1%	3%	18%	27%	6%	2%	6%	6%	13%
Attorney General	12%	1%	9%	24%	7%	1%	5%	3%	7%
Ministry of Counter Narcotic	68%	20%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Afghanistan National Standa	n/a	n/a	23%	18%	30%	29%	35%	31%	20%
Independent Directorate of I	n/a	n/a	7%	6%	9%	4%	9%	9%	19%
Directorate of Environment	9%	3%	13%	2%	4%	6%	6%	4%	4%
Science Academy	5%	0%	2%	6%	1%	1%	6%	5%	3%
IARCSC	40%	2%	62%	32%	5%	3%	1%	4%	6%
National Olympic Committee	8%	2%	2%	3%	1%	5%	3%	5%	23%
General Directorate of Natio	13%	0%	12%	13%	0%	0%	0%	0%	0%
Geodesy and Cartography Of	11%	5%	21%	20%	2%	1%	2%	6%	16%
Control and Audit Office	1%	11%	4%	3%	1%	4%	9%	6%	16%
The office of anti Corruption	n/a	n/a	55%	8%	13%	1%	2%	1%	13%
Office of Disaster Preparedn	27%	8%	1%	15%	12%	14%	10%	14%	21%
Anti-Corruption Commission	24%	1%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Office of Repatriates	2%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19%
Election Commission	26%	9%	2%	5%	21%	12%	7%	10%	41%
Central Statistics Office	6%	1%	15%	13%	5%	2%	2%	5%	8%
Legal Training Center	n/a	n/a	n/a	80%	36%	0%	n/a	n/a	n/a
Afghanistan High Atomic Ene	n/a	n/a	n/a	51%	14%	20%	14%	26%	29%
Directorate of Kochis	n/a	28%	8%	6%	12%	10%	5%	6%	22%
Afghanistan Investment Sup	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Municipalities	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Extrabudgetary Agencies	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Micro F Invstmnt Sprt FAfgha	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Water Supply Cnliztion Crpo	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Da Brishna Shirkat	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Independent Board of new K	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Indep Comm Overseeing Im	n/a	n/a	n/a	n/a	n/a	10%	2%	20%	13%
Afghanistan Independent Hu	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Afghnstn Indpndnt Land Athrty	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	29%
Municipalities	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Contingency F fr Dev Budget	100%	n/a	100%	100%	n/a	n/a	n/a	n/a	n/a
Total	**10%**	**8%**	**7%**	**6%**	**4%**	**4%**	**13%**	**10%**	**18%**

Figure 32. Development Budget: Deviation of Outcome from Budget (%) by Admin Unit

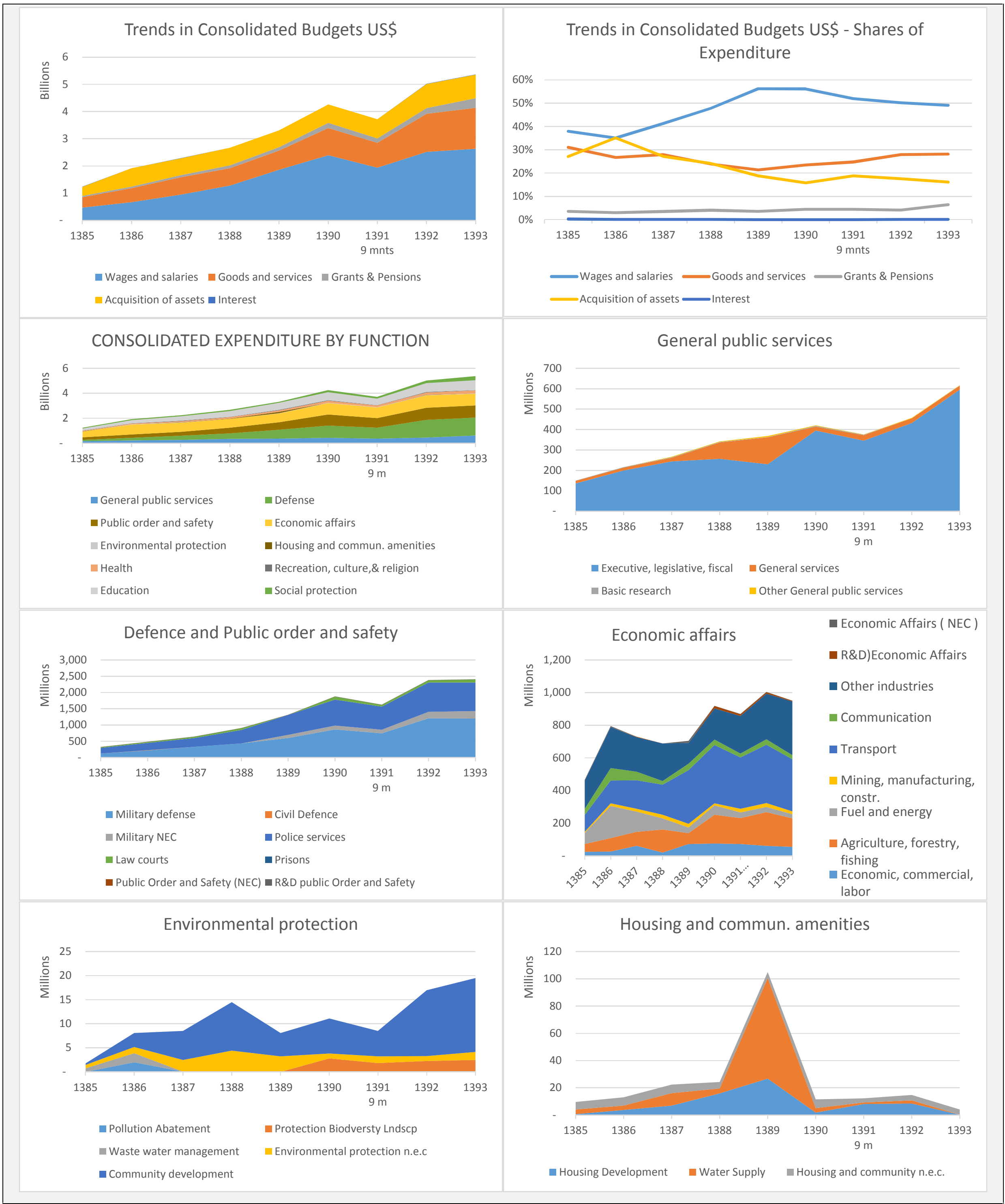
	1385	1385	1385	1385	1385	1385	1385	1385	1385
Presidents Office	94%	69%	n/a	133%	62%	65%	59%	63%	76%
National Assembly Meshanro J	n/a	n/a	n/a	86%	63%	75%	84%	49%	100%
National Assembly Wolesi Jirga	65%	91%	12%	34%	88%	29%	n/a	45%	100%
Administrative Affairs	n/a	n/a	163%	100%	55%	57%	41%	8%	20%
Supreme Court	98%	69%	88%	41%	82%	41%	46%	64%	69%
Presidential Protective Service	n/a	n/a	100%	n/a	75%	37%	92%	47%	89%
Wolesi Jirga	n/a	41%	n/a	n/a	n/a	n/a	n/a	n/a	86%
National Security Council	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Afghanistan fotball federation	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	89%
Ministry of Finance	63%	20%	13%	63%	73%	29%	40%	33%	54%
Ministry of State and Parliamentart Affairs	n/a	n/a	n/a	n/a	n/a	n/a	n/a	35%	99%
Ministry of Defence	n/a	91%	n/a	n/a	21%	91%	18%	27%	12%
Ministry of Foreign Affairs	55%	10%	825%	173%	78%	41%	22%	70%	50%
Ministry of Haj and Religious Affairs	72%	71%	115%	12%	68%	18%	29%	63%	79%
Ministry of Commerce	100%	100%	n/a	95%	81%	82%	44%	51%	26%
Ministry of Interior	77%	39%	71%	n/a	38%	56%	68%	96%	97%
Ministry of Education	72%	75%	18%	24%	60%	51%	66%	62%	55%
Ministry of Higher Education	38%	47%	27%	22%	67%	65%	60%	57%	72%
Ministry of Refugees and Repatriates	96%	69%	n/a	74%	62%	43%	28%	34%	84%
Local Government	n/a	94%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ministry of Mines and Industries	77%	87%	116%	59%	60%	74%	59%	29%	61%
Ministry of Communication	45%	22%	1%	55%	19%	39%	57%	48%	55%
Ministry of Economy	78%	23%	72%	61%	79%	59%	38%	20%	39%
Ministry of Information and Culture	85%	60%	n/a	42%	77%	87%	71%	67%	75%
Ministry of Public Health	4%	58%	14%	30%	41%	38%	47%	32%	40%
Ministry of Women Affairs	85%	32%	n/a	49%	48%	34%	17%	9%	92%
Ministry of Agriculture	56%	50%	50%	38%	69%	44%	47%	33%	43%
Ministry of Energy and Water	64%	36%	28%	55%	72%	50%	50%	47%	63%
Ministry of Public Works	59%	56%	46%	4%	51%	45%	43%	42%	57%
Ministry of Rural Rehabilitation and Develo	25%	34%	37%	8%	66%	50%	41%	22%	27%
Ministry of Transport and Aviation	84%	79%	48%	14267%	67%	44%	50%	42%	71%
Ministry of Frontiers and Tribal Affairs	127%	3%	n/a	41%	73%	24%	41%	39%	78%
Ministry of Martyrs, Disabled and Social Af	22%	48%	50%	10%	56%	49%	45%	33%	69%
Ministry of Counter Narcotics	n/a	n/a	n/a	n/a	76%	79%	48%	27%	13%
Ministry of Urban Development	84%	68%	39%	45%	58%	52%	33%	29%	83%
Ministry of Justice	47%	n/a	72%	67%	65%	16%	83%	68%	81%
Attorney General	99%	52%	80%	68%	89%	19%	74%	63%	72%
Ministry of Counter Narcotics	100%	88%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Afghanistan National Standard Authority	n/a	n/a	n/a	76%	100%	81%	34%	27%	100%
Independent Directorate of Local Governan	n/a	n/a	n/a	787%	78%	75%	61%	71%	90%
Directorate of Environment	n/a	n/a	n/a	36%	36%	32%	68%	100%	83%
Science Academy	83%	38%	24%	n/a	27%	48%	64%	37%	77%
IARCSC	63%	74%	36%	87%	37%	37%	37%	30%	62%
National Olympic Committee	100%	82%	n/a	69%	54%	25%	67%	76%	93%
General Directorate of National Security	11%	6%	n/a	n/a	35%	55%	33%	21%	66%
Geodesy and Cartography Office	231%	45%	205%	49%	7%	100%	62%	21%	82%
Control and Audit Office	67%	16%	3%	48%	61%	61%	76%	58%	71%
The office of anti Corruption	n/a	n/a	n/a	n/a	78%	93%	10%	0%	82%
Office of Disaster Preparedness	n/a	n/a	n/a	n/a	n/a	78%	49%	6%	92%
Anti-Corruption Commission	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Office of Repatriates	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Election Commission	n/a	n/a	n/a	n/a	66%	53%	91%	31%	100%
Central Statistics Office	n/a	n/a	n/a	n/a	77%	64%	66%	37%	91%
Afghanistan High Atomic Energy commissio	n/a	78%	n/a	n/a	48%	100%	48%	n/a	n/a
Directorate of Kochis	n/a	30%	n/a	61%	34%	33%	89%	54%	100%
Afghanistan Investment Suport Agency	n/a	97%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Municipalities	n/a	n/a	n/a	n/a	66%	49%	67%	53%	61%
Extrabudgetary Agencies	n/a	n/a	n/a	n/a	67%	97%	n/a	100%	100%
Micro F Invstmnt Sprt FAfghani	n/a	n/a	n/a	n/a	n/a	47%	98%	100%	86%
Water Supply Cnliztion Crpo	n/a	n/a	n/a	n/a	n/a	84%	83%	44%	36%
Da Brishna Shirkat	n/a	n/a	n/a	n/a	n/a	91%	69%	36%	60%
Independent Board of new Kabul	n/a	n/a	n/a	n/a	n/a	48%	54%	28%	38%
Afghanistan Independent Human Rights Co	n/a	n/a	n/a	n/a	n/a	100%	73%	36%	100%
0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	84%
Municipalities	n/a	n/a	n/a	47%	n/a	n/a	n/a	n/a	n/a
Contingency F fr Dev Budget	n/a	n/a	n/a	100%	n/a	n/a	n/a	n/a	n/a
Total	**49%**	**49%**	**28%**	**22%**	**61%**	**51%**	**49%**	**43%**	**54%**

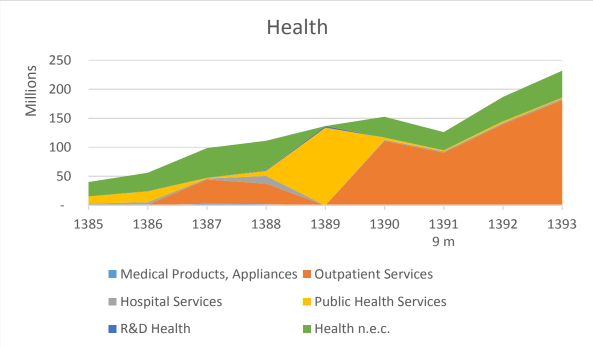
Figure 33. Consolidated Budget: Deviation of Outcome from Budget (%) by Admin Unit

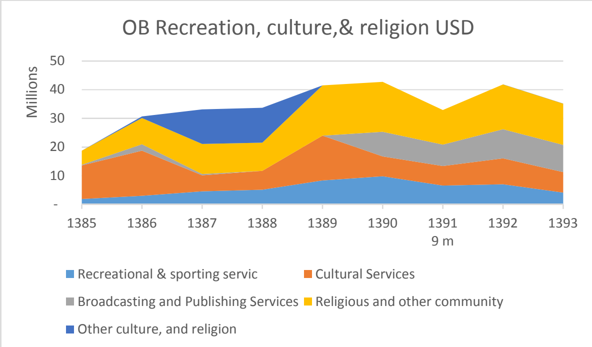
	1385	1385	1385	1385	1385	1385	1385	1385	1385
Presidents Office	28%	17%	40%	9%	19%	18%	21%	15%	23%
National Assembly Meshanr	20%	1%	2%	11%	14%	17%	18%	13%	15%
National Assembly Wolesi Ji	136%	15%	3%	29%	19%	1%	2%	1%	0%
Administrative Affairs	17%	5%	353%	364%	5%	7%	8%	4%	6%
Supreme Court	17%	18%	20%	24%	26%	7%	8%	12%	6%
Presidential Protective Servi	34%	4%	29%	35%	8%	6%	11%	8%	12%
Wolesi Jirga	n/a	7%	n/a	n/a	n/a	n/a	n/a	n/a	36%
National Security Council	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0%
Afghanistan fotball federatic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	72%
Ministry of Finance	60%	19%	39%	40%	50%	14%	16%	16%	35%
Ministry of State and Parlian	100%	n/a	n/a	25%	8%	4%	4%	9%	33%
Ministry of Defence	24%	16%	16%	45%	1%	10%	27%	21%	35%
Ministry of Foreign Affairs	22%	4%	25%	1%	28%	10%	8%	15%	16%
Ministry of Haj and Religious	22%	32%	31%	5%	46%	5%	13%	27%	31%
Ministry of Commerce	76%	77%	1324%	49%	26%	18%	14%	28%	13%
Ministry of Interior	20%	15%	4%	7%	2%	1%	13%	19%	27%
Ministry of Education	25%	32%	24%	1%	23%	16%	20%	21%	20%
Ministry of Higher Education	11%	31%	12%	11%	29%	29%	36%	31%	42%
Ministry of Refugees and Re	34%	44%	127%	38%	38%	21%	18%	6%	27%
Local Government	n/a	50%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ministry of Mines and Indust	67%	75%	41%	47%	52%	66%	54%	24%	50%
Ministry of Communication	35%	20%	2%	31%	16%	32%	48%	42%	47%
Ministry of Economy	68%	22%	60%	48%	64%	47%	31%	16%	32%
Ministry of Information and	45%	28%	22%	1%	32%	47%	38%	26%	30%
Ministry of Public Health	2%	45%	16%	22%	33%	32%	40%	27%	32%
Ministry of Women Affairs	22%	13%	0%	23%	26%	15%	15%	5%	29%
Ministry of Agriculture	36%	39%	27%	13%	58%	32%	41%	29%	39%
Ministry of Energy and Wate	47%	31%	15%	50%	71%	49%	49%	45%	60%
Ministry of Public Works	58%	54%	40%	10%	49%	40%	41%	38%	50%
Ministry of Rural Rehabilitat	24%	33%	35%	10%	65%	49%	40%	21%	27%
Civil Aviation Authority	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	21%
Ministry of Transport and Av	72%	72%	34%	146%	54%	31%	39%	34%	64%
Ministry of Frontiers and Tri	11%	2%	3%	15%	15%	6%	14%	18%	32%
Ministry of Martyrs, Disable	252%	10%	252%	282%	23%	5%	6%	3%	8%
Ministry of Counter Narcotic	n/a	n/a	446%	279%	64%	55%	42%	24%	11%
Ministry of Urban Developm	71%	65%	37%	41%	54%	44%	30%	26%	70%
Ministry of Justice	1%	3%	4%	8%	18%	4%	38%	27%	43%
Attorney General	33%	16%	33%	14%	42%	5%	13%	13%	19%
Ministry of Counter Narcotic	78%	78%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Afghanistan National Standa	n/a	n/a	10%	69%	87%	69%	34%	28%	76%
Independent Directorate of L	n/a	n/a	23%	19%	38%	33%	28%	33%	51%
Directorate of Environment	9%	3%	3%	9%	13%	12%	25%	30%	30%
Science Academy	30%	20%	8%	13%	9%	13%	22%	10%	11%
IARCSC	60%	65%	47%	65%	28%	27%	23%	20%	36%
National Olympic Committee	20%	53%	64%	41%	36%	16%	46%	49%	67%
General Directorate of Natio	12%	0%	14%	14%	1%	0%	0%	0%	1%
Geodesy and Cartography Of	6%	25%	59%	4%	3%	58%	41%	11%	31%
Control and Audit Office	49%	13%	3%	38%	53%	52%	64%	45%	60%
The office of anti Corruption	n/a	n/a	55%	7%	44%	33%	5%	0%	47%
Office of Disaster Preparedn	25%	8%	1%	15%	12%	28%	22%	11%	38%
Anti-Corruption Commission	24%	1%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Office of Repatriates	2%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19%
Election Commission	26%	9%	2%	5%	29%	17%	19%	13%	58%
Central Statistics Office	6%	1%	15%	13%	33%	35%	40%	22%	65%
Legal Training Center	n/a	n/a	n/a	80%	36%	0%	n/a	n/a	n/a
Afghanistan High Atomic Ene	n/a	78%	n/a	51%	20%	25%	16%	26%	29%
Directorate of Kochis	n/a	28%	6%	41%	22%	16%	45%	31%	50%
Afghanistan Investment Sup	n/a	97%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Municipalities	n/a	n/a	n/a	n/a	66%	49%	67%	53%	61%
Extrabudgetary Agencies	n/a	n/a	n/a	n/a	67%	97%	n/a	100%	100%
Micro F Invstmnt Sprt FAfgha	n/a	n/a	n/a	n/a	n/a	47%	98%	100%	86%
Water Supply Cnliztion Crpo	n/a	n/a	n/a	n/a	n/a	84%	83%	44%	36%
Da Brishna Shirkat	n/a	n/a	n/a	n/a	n/a	91%	69%	36%	60%
Independent Board of new K	n/a	n/a	n/a	n/a	n/a	48%	54%	28%	38%
Indep Comm Overseeing Im	n/a	n/a	n/a	n/a	n/a	10%	2%	20%	13%
Afghanistan Independent Hu	n/a	n/a	n/a	n/a	n/a	100%	73%	36%	100%
Afghnstn Indpndnt Land Ath	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	44%
Municipalities	n/a	n/a	n/a	47%	n/a	n/a	n/a	n/a	n/a
Contingency F fr Dev Budget	100%	n/a	100%	100%	n/a	n/a	n/a	n/a	n/a
Total	**32%**	**33%**	**10%**	**12%**	**32%**	**22%**	**28%**	**23%**	**32%**

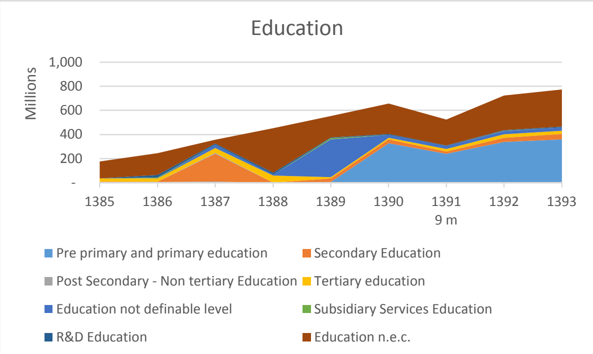
Attachment E: Fiscal Data: 1385-1393

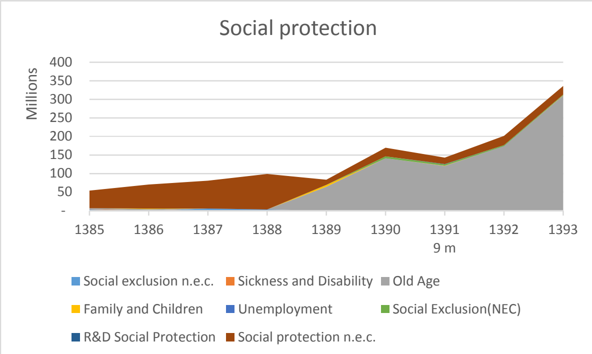
Figure 34. Consolidated Expenditure Trends

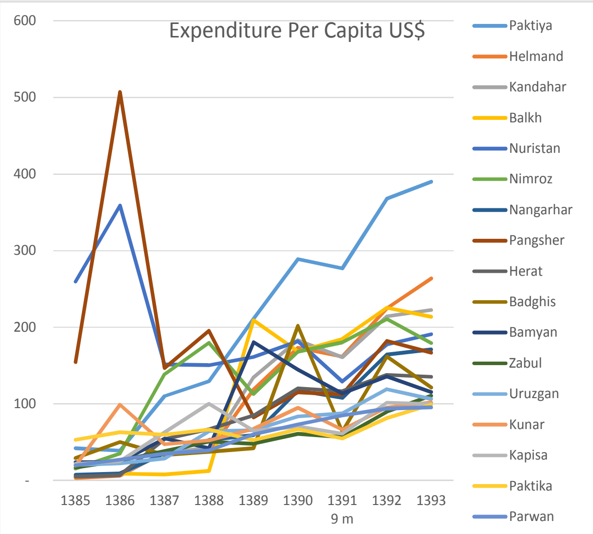


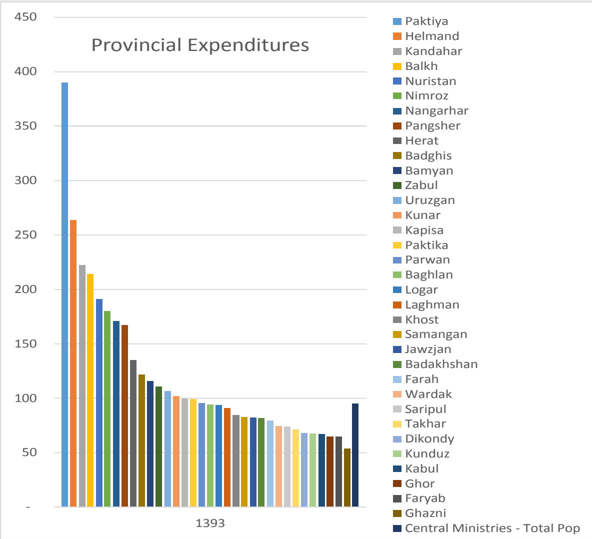

Health
Millions
250
200
150
100
50
-
1385 1386 1387 1388 1389 1390 1391 9 m 1392 1393
Medical Products, Appliances
Outpatient Services
Hospital Services
Public Health Services
R&D Health
Health n.e.c.

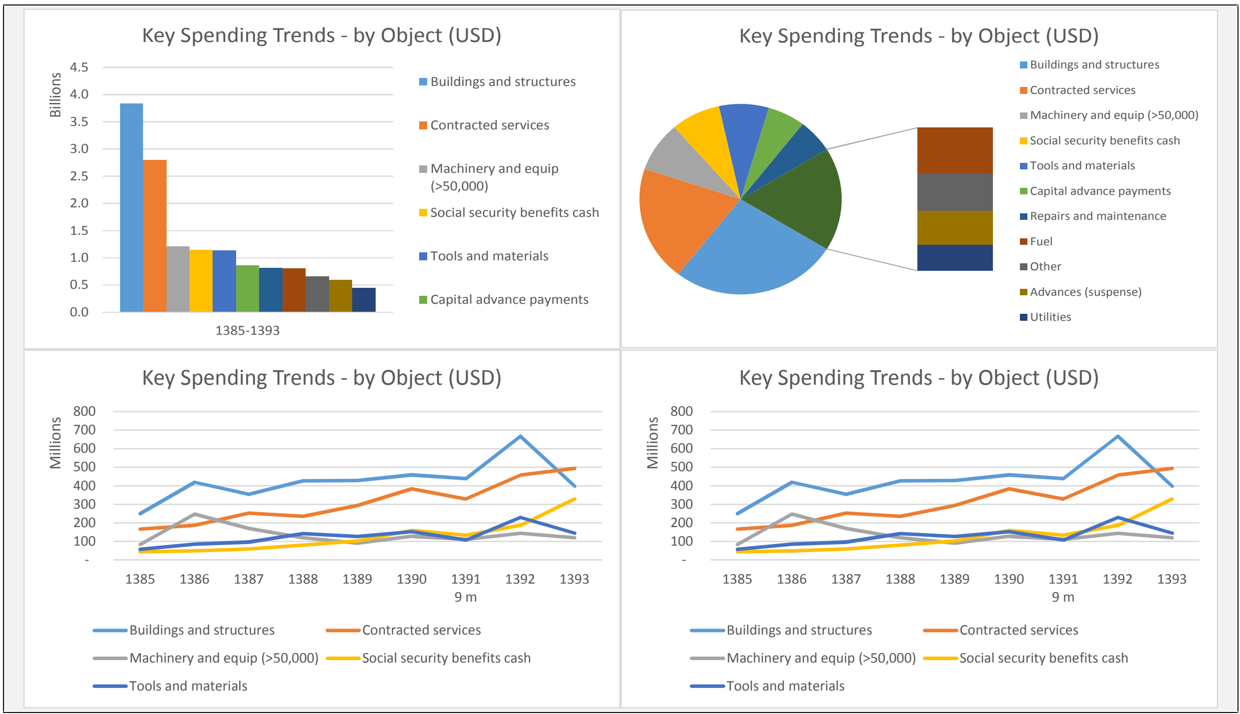

OB Recreation, culture,& religion USD
Millions
50
40
30
20
10
-
1385 1386 1387 1388 1389 1390 1391 9 m 1392 1393
Recreational & sporting servic
Cultural Services
Broadcasting and Publishing Services
Religious and other community
Other culture, and religion


Education
Millions
1,000
800
600
400
200
-
1385 1386 1387 1388 1389 1390 1391 9 m 1392 1393
Pre primary and primary education
Secondary Education
Post Secondary - Non tertiary Education
Tertiary education
Education not definable level
Subsidiary Services Education
R&D Education
Education n.e.c.


Social protection
Millions
400
350
300
250
200
150
100
50
-
1385 1386 1387 1388 1389 1390 1391 9 m 1392 1393
Social exclusion n.e.c.
Sickness and Disability
Old Age
Family and Children
Unemployment
Social Exclusion(NEC)
R&D Social Protection
Social protection n.e.c.

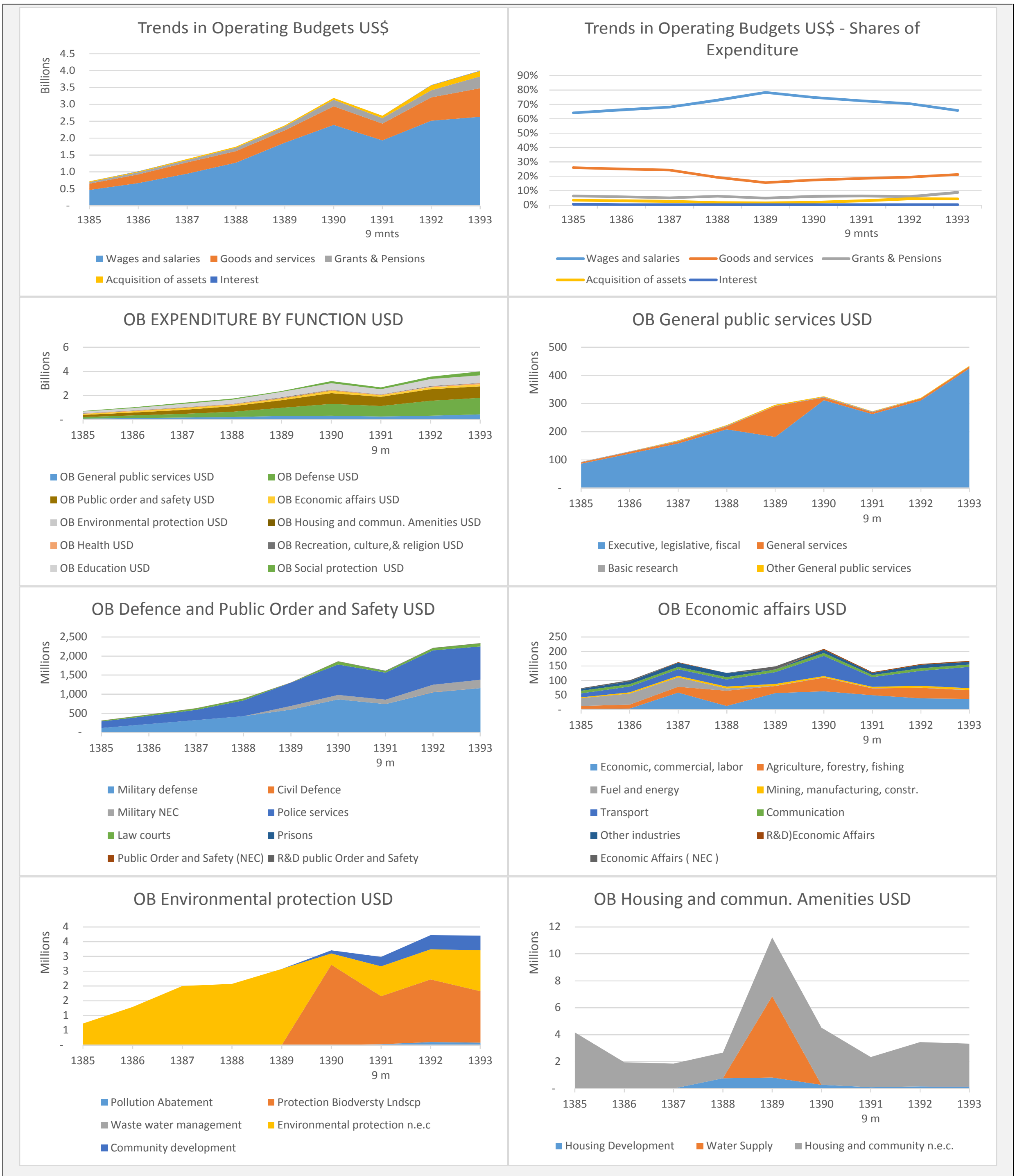

Expenditure Per Capita US$
600
500
400
300
200
100
-
1385 1386 1387 1388 1389 1390 1391 9 m 1392 1393
Paktiya
Helmand
Kandahar
Balkh
Nuristan
Nimroz
Nangarhar
Pangsher
Herat
Badghis
Bamyan
Zabul
Uruzgan
Kunar
Kapisa
Paktika
Parwan

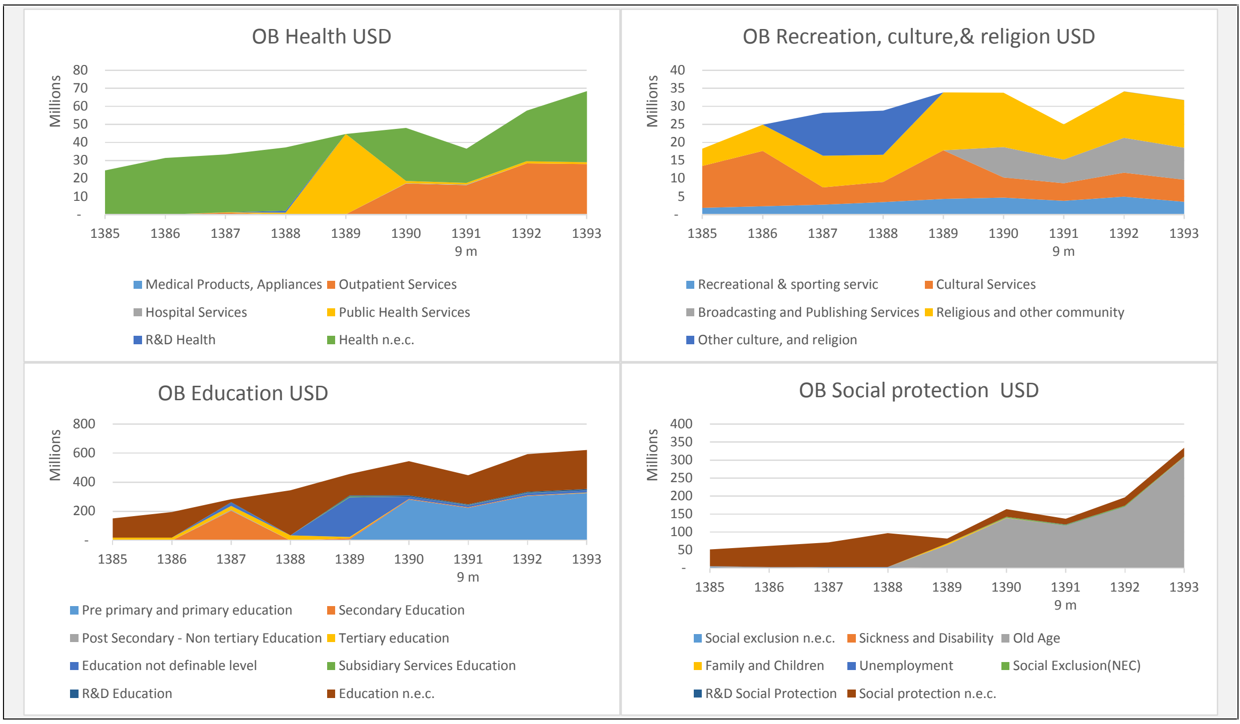

Provincial Expenditures
450
400
350
300
250
200
150
100
50
-
1393
Paktiya
Helmand
Kandahar
Balkh
Nuristan
Nimroz
Nangarhar
Pangsher
Herat
Badghis
Bamyan
Zabul
Uruzgan
Kunar
Kapisa
Paktika
Parwan
Baghlan
Logar
Laghman
Khost
Samangan
Jawzjan
Badakhshan
Farah
Wardak
Saripul
Takhar
Dikondy
Kunduz
Kabul
Ghor
Faryab
Ghazni
Central Ministries - Total Pop



Source: Published Financial Statements, WDI and Statistics publications

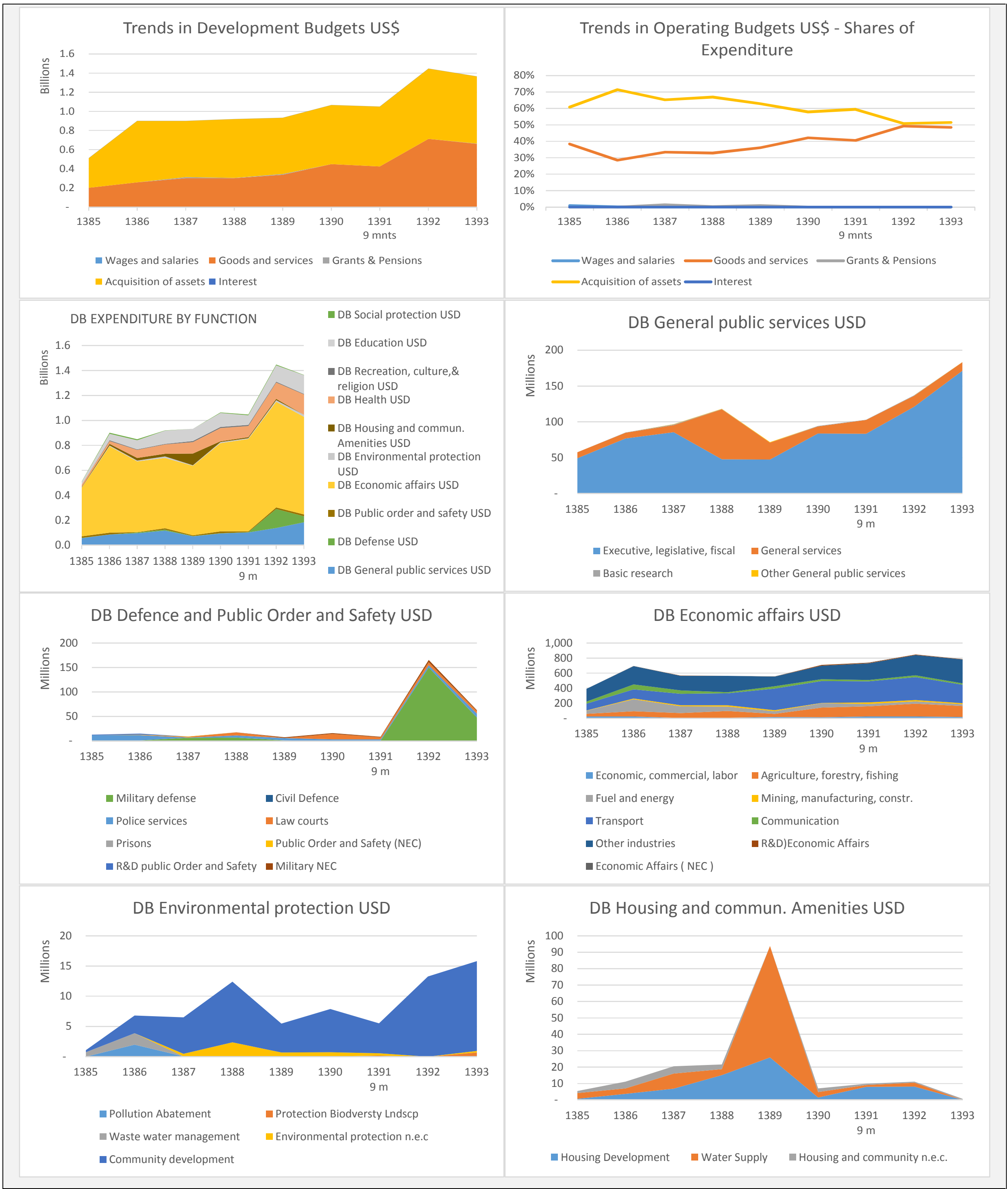
Figure 35. Operating Budget Expenditure Trends

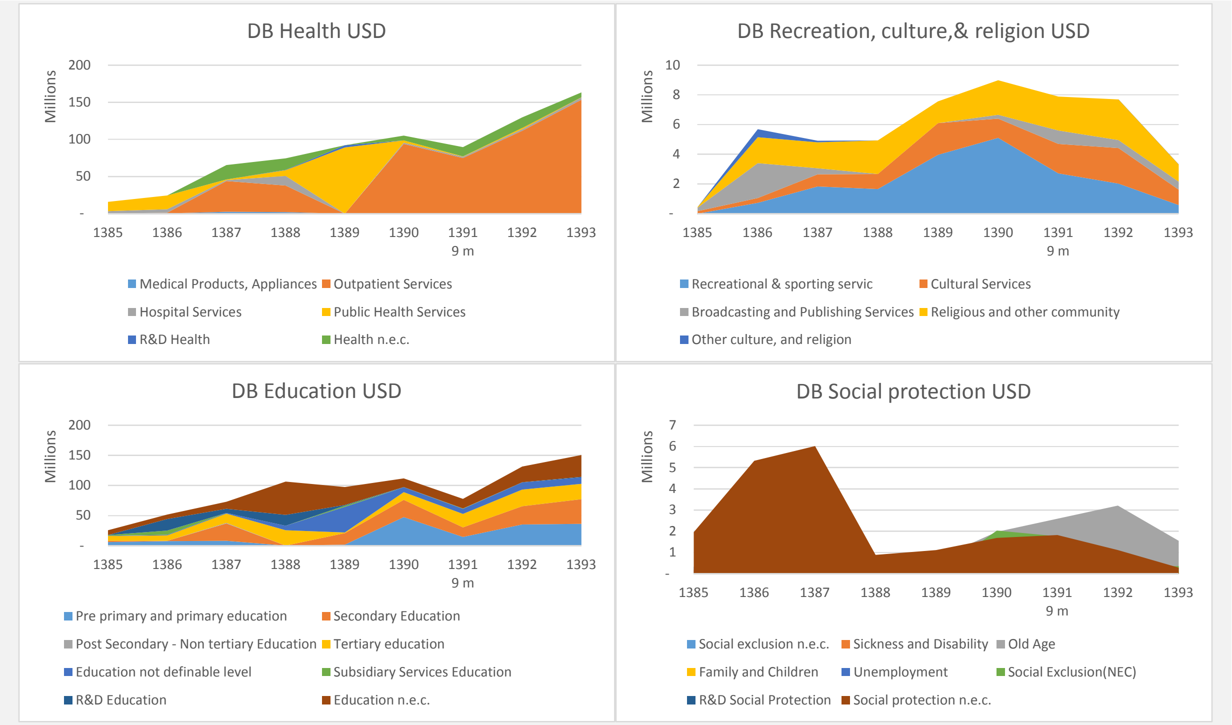




Source: Published Financial Statements

Figure 36. Developing Budget Expenditure Trends





Source: Published Financial Statements

Table 22. Consolidated financial statements: 1385-1393

	1385 Consolidated YTD AFS	1386 Consolidated YTD AFS	1387 Consolidated YTD AFS	1388 Consolidated YTD AFS	1389 Consolidated YTD AFS	1390 Consolidated YTD AFS	1391 9 m Consolidated YTD AFS	1392 Consolidated YTD AFS	1393 Consolidated YTD AFS
Revenues from domestic activities							9months		
Taxation	**20,644,569,239**	**24,993,711,122**	**28,777,483,282**	**51,531,593,686**	**66,391,831,127**	**75,529,815,675**	**60,040,316,819**	**80,818,070,588**	**71,763,641,059**
Other	**4,193,087,730**	**8,519,182,752**	**16,732,930,325**	**12,213,148,025**	**14,160,225,497**	**23,919,072,878**	**22,144,435,603**	**28,776,389,948**	**28,311,759,203**
Revenues from domestic activities	**24,837,656,969**	**33,512,893,874**	**45,510,413,607**	**63,744,741,711**	**80,552,056,624**	**99,448,888,553**	**82,184,752,422**	**109,594,460,537**	**100,075,400,262**
Expenditure from ordinary activities									
Wages and salaries	23,443,079,140	33,607,677,334	47,429,180,555	64,257,391,097	86,474,028,151	111,716,742,459	98,405,407,230	139,498,839,496	150,181,630,099
Goods and services	19,203,907,574	25,554,371,650	32,048,969,944	32,100,681,545	32,853,469,848	46,831,997,798	46,824,755,125	77,643,142,576	86,027,084,649
Grants & Pensions	2,240,562,409	2,881,748,488	4,048,235,241	5,469,195,760	5,567,883,705	8,936,033,175	8,320,724,582	11,435,932,075	19,878,737,981
Acquisition of assets	16,745,861,346	33,559,621,635	31,238,653,925	32,449,372,835	28,859,753,280	31,521,111,917	35,559,285,327	49,052,619,249	49,515,636,588
Interest	169,353,007	106,722,854	103,089,253	103,937,051	79,499,441	91,977,758	90,392,254	346,608,062	399,321,774
Total expenditure from ordinary activiti	**61,802,763,476**	**95,710,141,961**	**114,868,128,918**	**134,380,578,288**	**153,834,634,426**	**199,097,863,107**	**189,200,564,518**	**277,977,141,459**	**306,002,411,092**
Net surplus (deficit) prior to donor con	**- 36,965,106,507**	**- 62,197,248,087**	**- 69,357,715,311**	**- 70,635,836,577**	**- 73,282,577,802**	**- 99,648,974,554**	**- 107,015,812,095**	**- 168,382,680,922**	**- 205,927,010,829**
Revenue from donor contributions									
Donor & Loan Revenues	36,376,934,838	59,502,370,642	55,963,620,434	66,264,024,622	87,263,460,510	95,945,199,861	101,571,956,311	197,878,248,891	182,126,904,055
Revenues from donor contributions	**36,376,934,838**	**59,502,370,642**	**55,963,620,434**	**66,264,024,622**	**87,263,460,510**	**95,945,199,861**	**101,571,956,311**	**197,878,248,891**	**182,126,904,055**
Net surplus after donor contributions	**- 588,171,669**	**- 2,694,877,446**	**- 13,394,094,877**	**- 4,371,811,956**	**13,980,882,708**	**- 3,703,774,693**	**- 5,443,855,784**	**29,495,567,969**	**- 23,800,106,774**
EXPENDITURE BY FUNCTION									
General public services	**7,497,338,378**	**10,771,602,397**	**13,381,258,198**	**17,181,941,434**	**17,100,142,461**	**19,650,673,740**	**19,153,171,658**	**25,322,179,074**	**35,203,030,036**
Defense	**5,982,944,242**	**11,052,870,158**	**16,507,820,793**	**21,702,114,033**	**32,329,833,004**	**45,930,059,966**	**43,671,344,085**	**77,629,916,468**	**81,436,079,319**
Public order and safety	**10,037,026,528**	**13,049,462,069**	**15,765,808,590**	**23,870,914,537**	**28,544,678,106**	**41,785,142,718**	**38,925,067,319**	**53,760,746,581**	**55,305,310,042**
Economic affairs	**23,237,458,743**	**39,675,568,086**	**36,643,321,336**	**34,653,584,920**	**32,751,382,822**	**42,925,056,992**	**44,266,092,930**	**55,631,312,909**	**54,220,995,623**
Environmental protection	**88,714,167**	**403,086,655**	**426,580,669**	**728,525,277**	**373,767,549**	**517,125,845**	**431,601,496**	**940,068,976**	**1,112,205,436**
Housing and commun. amenities	**480,865,938**	**653,331,368**	**1,125,456,919**	**1,222,994,479**	**4,876,960,780**	**538,098,293**	**626,449,980**	**814,346,773**	**233,340,581**
Health	**1,995,140,106**	**2,797,009,523**	**4,950,007,003**	**5,617,801,364**	**6,362,076,234**	**7,146,733,953**	**6,422,603,903**	**10,364,370,836**	**13,228,909,995**
Recreation, culture,& religion	**932,475,022**	**1,531,054,589**	**1,661,642,555**	**1,697,360,393**	**1,926,579,332**	**1,998,737,830**	**1,673,199,236**	**2,314,839,499**	**2,001,786,471**
Education	**8,853,238,749**	**12,272,729,580**	**17,879,113,341**	**22,724,337,707**	**25,691,006,952**	**30,680,907,572**	**26,736,174,498**	**40,058,759,146**	**44,084,668,001**
Social protection	**2,697,561,603**	**3,503,427,534**	**4,040,649,769**	**4,981,004,145**	**3,878,207,185**	**7,925,326,204**	**7,294,859,412**	**11,140,601,197**	**19,176,085,591**
Total expenditure by COFOG	**61,802,763,475**	**95,710,141,961**	**112,381,659,174**	**134,380,578,290**	**153,834,634,426**	**199,097,863,113**	**189,200,564,518**	**277,977,141,460**	**306,002,411,094**
EXPENDITURE BY ADMINSTRATIVE UNIT									
Total	**61,802,763,476**	**95,710,141,961**	**114,868,128,918**	**134,380,578,289**	**153,834,634,426**	**199,097,863,107**	**189,200,564,518**	**277,977,141,459**	**306,002,411,092**
EXPENDITURE BY PROVINCE									
Total	**61,802,763,476**	**95,710,141,961**	**114,868,128,918**	**134,418,130,414**	**153,834,634,426**	**199,097,863,107**	**189,200,564,518**	**277,977,141,459**	**306,002,411,092**
ASSETS									
Financial assets									
Total financial assets	**27,267,323,407**	**27,005,811,802**	**24,243,085,676**	**26,314,139,238**	**48,682,708,409**	**57,928,185,321**	**77,436,309,736**	**83,944,521,265**	**62,383,428,263**
Total assets	**-**	**27,005,811,802**	**24,243,085,676**	**26,314,139,238**	**48,682,708,409**	**57,928,185,321**	**77,436,309,736**	**83,944,521,265**	**62,383,428,263**
LIABILITIES									
Provisions and payables									
Total provisions and payables	**-**	**48,616,617,709**	**64,311,051,301**	**76,900,430,597**	**79,752,379,291**	**93,095,922,881**	**116,732,577,605**	**93,394,584,797**	**94,407,740,612**
Total liabilities	**-**	**48,616,617,709**	**64,311,051,301**	**76,900,430,597**	**79,752,379,291**	**93,095,922,881**	**116,732,577,605**	**93,394,584,797**	**94,407,740,612**
NET ASSETS	**-**	**- 21,610,805,907**	**- 40,067,965,626**	**- 50,586,291,359**	**- 31,069,670,881**	**- 35,167,737,559**	**- 39,296,267,868**	**- 9,450,063,532**	**- 32,024,312,349**
EQUITY									
Retained Surpluses/(Accumulated	**- 10,039,348,258**	**- 21,610,805,907**	**- 40,067,965,626**	**- 50,586,291,359**	**- 31,069,670,935**	**- 35,167,737,559**	**- 39,296,267,868**	**- 9,450,063,532**	**- 32,024,312,349**
Total equity	**-**	**- 21,610,805,907**	**- 40,067,965,626**	**- 50,586,291,359**	**- 31,069,670,935**	**- 35,167,737,559**	**- 39,296,267,868**	**- 9,450,063,532**	**- 32,024,312,349**

Source: Published Financial Statements

Table 23. Operating budget financial statements: 1385-1393

	1385 Operating YTD AFS	1386 Operating YTD AFS	1387 Operating YTD AFS	1388 Operating YTD AFS	1389 Operating YTD AFS	1390 Operating YTD AFS	1391 9 m Operating YTD AFS	1392 Operating YTD AFS	1393 Operating YTD Afs '000
Revenues from domestic activities									
Taxation	**20,644,569,239**	**24,993,711,122**	**28,777,483,282**	**51,531,593,686**	**66,391,831,127**	**75,529,815,675**	**60,040,316,819**	**80,818,070,588**	**71,763,641,059**
Other	**4,193,087,730**	**8,518,727,408**	**16,732,267,355**	**12,213,148,025**	**14,085,187,962**	**23,866,542,670**	**21,731,006,929**	**28,514,924,783**	**28,166,302,179**
Revenues from domestic activities	**24,837,656,969**	**33,512,438,530**	**45,509,750,637**	**63,744,741,711**	**80,477,019,089**	**99,396,358,344**	**81,771,323,748**	**109,332,995,372**	**99,929,943,239**
Expenditure from ordinary activities									
Wages and salaries	23,209,293,724	33,566,848,586	47,429,180,555	64,257,391,097	86,474,028,151	111,716,742,459	98,405,407,230	139,498,839,496	150,181,630,099
Goods and services	9,399,881,989	12,694,792,545	16,920,818,229	16,888,812,328	17,157,832,920	25,864,800,873	25,159,372,200	38,189,336,029	48,298,811,624
Grants & Pensions	2,240,562,409	2,881,748,488	3,429,990,536	5,337,970,040	5,151,557,536	8,936,033,175	8,320,724,582	11,435,932,075	19,819,428,381
Acquisition of assets	1,194,004,572	1,417,113,476	1,755,738,331	1,483,924,243	1,589,860,584	2,691,739,175	3,816,234,285	8,353,471,133	9,431,182,215
Interest	169,353,007	106,722,854	103,089,253	103,937,051	79,499,441	91,977,758	90,392,254	346,608,062	399,321,774
Total expenditure from ordinary activiti	**36,213,095,701**	**50,667,225,949**	**69,638,816,904**	**88,072,034,759**	**110,452,778,632**	**149,301,293,440**	**135,792,130,551**	**197,824,186,795**	**228,130,374,094**
Net surplus (deficit) prior to donor con	**-11,375,438,732**	**-17,154,787,419**	**-24,129,066,267**	**-24,327,293,048**	**-29,975,759,543**	**-49,904,935,095**	**-54,020,806,803**	**-88,491,191,423**	**-128,200,430,855**
Revenue from donor contributions									
Donor & Loan Revenues	17,929,636,828	23,328,844,250	29,506,744,762	32,767,683,011	54,465,767,333	60,409,106,144	65,642,063,516	140,082,069,955	119,099,601,767
Revenues from donor contributions	**17,929,636,828**	**23,328,844,250**	**29,506,744,762**	**32,767,683,011**	**54,465,767,333**	**60,409,106,144**	**65,642,063,516**	**140,082,069,955**	**119,099,601,767**
Net surplus after donor contributions	**6,554,198,096**	**6,174,056,831**	**5,377,678,495**	**8,440,389,963**	**24,490,007,790**	**10,504,171,049**	**11,621,256,713**	**51,590,878,532**	**-9,100,829,088**
EXPENDITURE BY FUNCTION									
General public services	**4,623,795,473**	**6,506,949,656**	**8,514,524,435**	**11,235,576,348**	**13,765,027,805**	**15,236,428,295**	**13,904,395,612**	**17,720,811,892**	**24,749,299,981**
Defense	**5,938,578,204**	**10,997,817,448**	**16,171,845,051**	**21,336,793,218**	**32,213,613,343**	**45,837,732,692**	**43,580,145,853**	**69,103,292,833**	**78,617,747,941**
Public order and safety	**9,440,359,508**	**12,366,938,545**	**15,653,527,371**	**23,345,924,085**	**28,309,299,049**	**41,134,022,026**	**38,576,960,940**	**53,145,112,629**	**54,553,812,154**
Economic affairs	**3,701,376,987**	**5,037,951,430**	**8,211,492,287**	**6,339,245,791**	**6,902,739,483**	**9,801,733,142**	**6,591,238,860**	**8,716,281,178**	**9,549,415,475**
Environmental protection	**36,419,441**	**64,311,038**	**100,660,496**	**104,007,600**	**119,761,197**	**149,842,923**	**151,876,937**	**205,931,921**	**211,407,260**
Housing and commun. amenities	**208,165,422**	**97,802,316**	**93,312,694**	**134,823,148**	**521,455,776**	**211,658,996**	**119,622,561**	**191,437,143**	**189,924,060**
Health	**1,216,844,319**	**1,567,916,071**	**1,672,291,239**	**1,872,557,956**	**2,078,607,995**	**2,243,901,711**	**1,858,230,102**	**3,194,885,698**	**3,905,151,452**
Recreation, culture,& religion	**910,468,452**	**1,246,562,440**	**1,415,358,163**	**1,449,383,357**	**1,575,378,596**	**1,578,353,699**	**1,271,608,920**	**1,889,028,459**	**1,812,538,062**
Education	**7,570,335,814**	**9,682,339,234**	**14,220,517,319**	**17,357,731,370**	**21,173,355,953**	**25,453,636,125**	**22,767,969,237**	**32,774,040,771**	**35,496,164,794**
Social protection	**2,566,752,080**	**3,098,637,770**	**3,585,287,848**	**4,895,991,884**	**3,793,539,435**	**7,653,983,831**	**6,970,081,529**	**10,883,364,272**	**19,044,912,916**
Total expenditure by COFOG	**36,213,095,699**	**50,667,225,948**	**69,638,816,903**	**88,072,034,756**	**110,452,778,631**	**149,301,293,440**	**135,792,130,550**	**197,824,186,795**	**228,130,374,094**
EXPENDITURE BY ADMINSTRATIVE UNIT									
Total	**36,213,095,701**	**50,667,225,949**	**69,638,816,904**	**88,072,034,759**	**110,452,778,632**	**149,301,293,440**	**135,792,130,551**	**197,824,186,795**	**228,130,374,094**
EXPENDITURE BY PROVINCE									
Total	**36,213,095,701**	**50,667,225,949**	**69,638,816,904**	**88,109,586,884**	**110,452,778,632**	**149,301,293,440**	**135,792,130,551**	**197,824,186,795**	**228,130,374,094**

Source: Published Financial Statements

Table 24. Development budget financial statements: 1385-1393

	1385 Development YTD AFS	1386 Development YTD AFS	1387 Development YTD AFS	1388 Development YTD AFS	1389 Development YTD AFS	1390 Development YTD AFS	1391 9 m Development YTD AFS	1392 Development YTD AFS	1393 Development YTD Afs '000
Revenues from domestic activities									
Taxation	-	-	-	-	-	-	-	-	-
Other	-	**455,344**	**662,970**	-	**75,037,535**	**52,530,208**	**413,428,674**	**261,465,165**	**145,456,931**
Revenues from domestic activities	-	**455,344**	**662,970**	-	**75,037,535**	**52,530,208**	**413,428,674**	**261,465,165**	**145,456,931**
Expenditure from ordinary activities									
Wages and salaries	233,785,416	40,828,748	-	-	3	3	3	-	-
Goods and services	9,804,025,585	12,859,579,105	15,128,151,715	15,211,869,217	15,695,636,928	20,967,196,925	21,665,382,925	39,453,806,548	37,728,273,025
Grants & Pensions	-	-	618,244,705	131,225,720	416,326,169	-	-	-	59,309,600
Acquisition of assets	15,551,856,775	32,142,508,159	29,482,915,594	30,965,448,593	27,269,892,696	28,829,372,742	31,743,051,042	40,699,148,116	40,084,454,373
Interest	-	-	-	-	-	-	-	-	-
Total expenditure from ordinary activities	**25,589,667,775**	**45,042,916,012**	**45,229,312,014**	**46,308,543,530**	**43,381,855,797**	**49,796,569,670**	**53,408,433,970**	**80,152,954,664**	**77,872,036,998**
Net surplus (deficit) prior to donor contributions	**-25,589,667,775**	**-45,042,460,668**	**-45,228,649,044**	**-46,308,543,530**	**-43,306,818,262**	**-49,744,039,462**	**-52,995,005,295**	**-79,891,489,499**	**-77,726,580,067**
Revenue from donor contributions									
Donor & Loan Revenues	18,447,298,010	36,173,526,391	26,456,875,672	33,496,341,611	32,797,693,177	35,536,093,717	35,929,892,795	57,796,178,936	63,027,302,288
Revenues from donor contributions	**18,447,298,010**	**36,173,526,391**	**26,456,875,672**	**33,496,341,611**	**32,797,693,177**	**35,536,093,717**	**35,929,892,795**	**57,796,178,936**	**63,027,302,288**
Net surplus after donor contributions	**-7,142,369,765**	**-8,868,934,277**	**-18,771,773,372**	**-12,812,201,920**	**-10,509,125,085**	**-14,207,945,745**	**-17,065,112,500**	**-22,095,310,563**	**-14,699,277,779**
EXPENDITURE BY FUNCTION									
General public services	**2,873,542,905**	**4,264,652,741**	**4,866,733,762**	**5,946,365,085**	**3,335,114,656**	**4,414,245,444**	**5,248,776,046**	**7,601,367,182**	**10,453,730,054**
Defense	**44,366,038**	**55,052,710**	**335,975,742**	**365,320,815**	**116,219,661**	**92,327,274**	**91,198,232**	**8,526,623,635**	**2,818,331,378**
Public order and safety	**596,667,020**	**682,523,524**	**112,281,219**	**524,990,452**	**235,379,057**	**651,120,692**	**348,106,379**	**615,633,952**	**751,497,888**
Economic affairs	**19,536,081,755**	**34,637,616,655**	**28,431,829,048**	**28,314,339,128**	**25,848,643,338**	**33,123,323,850**	**37,674,854,070**	**46,915,031,731**	**44,671,580,148**
Environmental protection	**52,294,726**	**338,775,617**	**325,920,173**	**624,517,677**	**254,006,352**	**367,282,922**	**279,724,559**	**734,137,055**	**900,798,176**
Housing and commun. amenities	**272,700,516**	**555,529,052**	**1,032,144,225**	**1,088,171,331**	**4,355,505,004**	**326,439,297**	**506,827,419**	**622,909,630**	**43,416,521**
Health	**778,295,787**	**1,229,093,452**	**3,277,715,764**	**3,745,243,408**	**4,283,468,239**	**4,902,832,242**	**4,564,373,801**	**7,169,485,138**	**9,323,758,543**
Recreation, culture,& religion	**22,006,570**	**284,492,149**	**246,284,392**	**247,977,036**	**351,200,736**	**420,384,131**	**401,590,316**	**425,811,040**	**189,248,409**
Education	**1,282,902,935**	**2,590,390,346**	**3,658,596,022**	**5,366,606,337**	**4,517,650,999**	**5,227,271,447**	**3,968,205,261**	**7,284,718,375**	**8,588,503,206**
Social protection	**130,809,523**	**404,789,764**	**455,361,921**	**85,012,261**	**84,667,750**	**271,342,373**	**324,777,883**	**257,236,925**	**131,172,675**
Total expenditure by COFOG	**25,589,667,773**	**45,042,916,011**	**42,742,842,268**	**46,308,543,531**	**43,381,855,792**	**49,796,569,670**	**53,408,433,965**	**80,152,954,662**	**77,872,036,998**
EXPENDITURE BY ADMINSTRATIVE UNIT									
Total	**25,589,667,775**	**45,042,916,012**	**45,229,312,014**	**46,308,543,530**	**43,381,855,794**	**49,796,569,667**	**53,408,433,967**	**80,152,954,664**	**77,872,036,998**
EXPENDITURE BY PROVINCE									
Total	**25,589,667,775**	**45,042,916,012**	**45,229,312,014**	**46,308,543,530**	**43,381,855,794**	**49,796,569,667**	**53,408,433,967**	**80,152,954,664**	**77,872,036,998**

Source: Published Financial Statements

Figure 37. Observance of the Basel Core Principles (Rapid Assessment): w

P No.	Principle	2005 Compliance Status	2008 Compliance Status	2013 Compliance Status
FRA	**(i) Compliance with preconditions for effective banking supervision**	**D**	**D**	**C**
A	**Preconditions for effective banking supervision**	**NC**	**NC**	**BNC**
1.1	Clear Supervisory Responsibilities	BNC	BNC	BC
1.2	Independence and Resources	NC	NC	BC
1.3	Legal Framework	NC	NC	BNC
1.4	Supervisory Powers	NC	NC	BNC
1.5	Legal Protection	NC	NC	BNC
1.6	Information Sharing	NC	NC	BNC
FRA	**(ii) Compliance with licensing and structure, prudential regulations and requirements and methods of ongoing banking supervision**	**D**	**D**	**C**
B	**Licensing and structure**	**NC**	**NC**	**BC**
2	Permissible Activities	NC	NC	BC
3	Licensing of Banks	NC	NC	BC
4	Transfer of Ownership	NC	NC	BC
5	Acquisitions and Investments	NC	NC	BC
C	**Prudential regulations and requirements**	**NC**	**NC**	**BNC**
6	Capital Requirements	NC	NC	BC
7	Loan Policies	NC	NC	BNC
8	Loan Classification	NC	NC	BNC
9	Management Information on Risk Concentration	NC	NC	BC
10	Connected Lending	NC	NC	BC
11	Country Risks	NC	NC	BNC
12	Market Risks	NC	NC	BNC
13	Other Material Risks	NC	NC	BC
14	Internal Controls	NC	NC	BNC
15	Money Laundering	NC	NC	BNC
D	**Methods of ongoing banking supervision**	**NC**	**NC**	**BNC**
16	On-site/Off-site Supervision	NC	NC	BNC
17	Understanding Banks' Operations	NC	NC	BNC
18	Prudential Reporting	NC	NC	BNC
19	Independent Examination of Prudential Information	NC	NC	BNC
20	Consolidated Supervision	NC	NC	BNC
FRA	**(iii) Compliance with information requirements, formal powers of supervisors and cross-border banking**	**D**	**D**	**C**
E	**Information requirements**	**NC**	**NC**	**BNC**
21	Accounting and Disclosure	NC	NC	BNC
F	**Formal powers of supervisors**	**NC**	**NC**	**BNC**
22	Corrective Action	NC	NC	BNC
G	**Cross-border banking**	**NC**	**NC**	**BNC**
23	Global Supervision	NC	NC	BNC
24	Cooperation with Foreign Supervisors	NC	NC	BNC
25	Foreign Banks' Branches Total	NC	NC	BNC

Attachment G: AID Data

Table 25. ODA Disbursements 2002-2013: by Donor and by Sector

USD Million	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2002-13
By Donor													
All Donors, Total	932	1,261	1,781	2,669	2,733	3,599	4,568	5,470	6,450	6,542	6,549	5,192	**47,746**
USA	368	486	778	1,318	1,404	1,514	2,118	2,717	3,001	2,901	2,773	1,708	**21,086**
Japan	24	135	173	71	107	101	208	171	746	750	874	831	**4,190**
Germany	123	82	75	99	118	217	294	337	470	539	516	549	**3,420**
UK	87	51	77	169	203	268	322	325	238	425	440	334	**2,940**
EU	-	3	-	257	221	307	349	395	285	363	257	250	**2,688**
IDA	20	97	230	285	143	333	169	301	214	154	172	185	**2,304**
AsDB	-	-	-	-	-	-	-	-	237	122	234	170	**763**
Sweden	24	39	51	42	45	57	74	80	92	116	109	128	**856**
Norway	62	69	68	60	70	94	129	116	120	139	126	127	**1,180**
Korea	-	-	-	-	2	3	4	24	94	28	79	122	**355**
Canada	14	65	55	84	121	205	206	232	267	225	102	122	**1,699**
Australia	13	8	21	16	21	50	138	97	99	159	227	104	**954**
Netherlands	88	77	93	94	87	89	112	148	115	108	69	80	**1,161**
Others	197	226	253	267	279	449	556	674	588	620	641	560	**5,310**
By Sector													
1000: Total All Sectors	**900**	**1,141**	**1,531**	**2,099**	**2,335**	**2,845**	**3,929**	**4,599**	**5,583**	**5,768**	**5,661**	**4,397**	**40,788**
450: Total Sector Allocable	**264**	**600**	**1,043**	**1,676**	**1,884**	**2,409**	**3,192**	**3,913**	**4,748**	**4,970**	**4,895**	**3,933**	**33,527**
100: I. Social Infrastructure & Services, Total	**192**	**374**	**563**	**914**	**994**	**1,423**	**1,925**	**2,181**	**3,040**	**3,210**	**3,340**	**2,691**	**20,846**
110: I.1. Education, Total	10	24	68	153	66	126	201	237	362	349	325	432	**2,354**
120: I.2. Health, Total	14	11	59	112	90	144	144	122	116	170	116	147	**1,245**
130: I.3. Population Pol./Progr. & Reproductive Health, Total	1	11	13	1	14	4	49	104	100	113	119	86	**616**
140: I.4. Water Supply & Sanitation, Total	5	2	5	37	15	20	36	40	49	99	63	66	**436**
150: I.5. Government & Civil Society, Total	145	320	334	351	702	813	1,244	1,588	2,132	2,297	2,635	1,889	**14,450**
151: I.5.a. Government & Civil Society-general, Total	93	84	244	269	260	625	897	1,187	1,278	1,595	2,179	1,510	**10,221**
15110: Public sector policy and adm. management	78	50	176	107	152	246	513	505	324	577	990	256	**3,973**

USD Million	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2002-13
15111: Public finance management	2	1	1	2	2	127	13	22	31	23	199	53	**476**
15112: Decentralisation and support to subnational govt.	-	-	-	-	-	-	-	73	71	165	136	137	**582**
15113: Anti-corruption organisations and institutions	-	-	-	-	-	-	-	5	3	9	7	9	**33**
15130: Legal and judicial development	0	4	3	30	16	134	244	341	536	594	686	849	**3,438**
15150: Democratic participation and civil society	8	9	5	18	74	90	33	37	77	89	48	56	**543**
15151: Elections	-	16	53	99	2	7	65	164	173	48	56	79	**761**
15152: Legislatures and political parties	-	-	-	-	-	-	-	8	19	14	6	5	**53**
15153: Media and free flow of information	-	0	1	5	5	3	6	7	12	22	15	16	**91**
15160: Human rights	3	2	2	4	7	8	16	17	20	39	29	27	**176**
15170: Women's equality organisations and institutions	2	1	3	2	3	10	8	8	11	15	6	24	**94**
152: I.5.b. Conflict, Peace & Security, Total	52	236	91	82	442	188	348	401	854	702	456	379	**4,229**
15210: Security system management and reform	-	-	-	20	56	14	67	68	79	135	104	33	**577**
15220: Civilian peace-building, conflict prevention and resolution	-	-	1	14	341	120	187	229	600	407	264	206	**2,367**
15230: Participation in international peacekeeping operations	34	201	64	21	23	18	19	43	98	55	38	99	**711**
15240: Reintegration and SALW control	-	3	9	4	2	2	2	2	9	12	16	24	**86**
15250: Removal of land mines and explosive remnants of war	18	32	17	23	20	33	73	60	69	92	34	18	**488**
15261: Child soldiers (prevention and demobilisation)	-	-	-	-	-	-	-	-	0	0	-	-	**1**
160: I.6. Other Social Infrastructure & Services, Total	18	6	84	260	106	317	251	88	281	181	82	71	**1,744**
200: II. Economic Infrastructure & Services, Total	**13**	**65**	**350**	**570**	**606**	**694**	**820**	**1,072**	**802**	**892**	**780**	**693**	**7,356**
210: II.1. Transport & Storage, Total	5	42	316	402	150	156	444	700	491	417	321	269	**3,712**
220: II.2. Communications, Total	1	18	10	18	8	2	4	2	5	5	3	5	**81**
230: II.3. Energy, Total	4	1	6	68	11	34	152	142	175	231	188	288	**1,301**

USD Million	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2002-13
240: II.4. Banking & Financial Services, Total	3	4	18	20	35	35	16	122	30	37	43	39	**403**
250: II.5. Business & Other Services, Total	-	0	0	61	403	467	204	106	100	202	224	92	**1,859**
300: III. Production Sectors, Total	**6**	**14**	**38**	**140**	**69**	**77**	**267**	**446**	**608**	**478**	**319**	**250**	**2,712**
310: III.1. Agriculture, Forestry, Fishing, Total	6	14	31	126	43	51	210	416	542	404	254	180	**2,276**
320: III.2. Industry, Mining, Construction, Total	0	0	2	5	12	7	7	17	44	42	33	37	**208**
331: III.3.a. Trade Policies & Regulations, Total	-	-	4	4	13	19	50	14	22	31	33	32	**222**
332: III.3.b. Tourism, Total	0	-	0	5	-	-	0	0	0	1	-	-	**6**
400: IV. Multi-Sector / Cross-Cutting, Total	**53**	**147**	**91**	**53**	**215**	**215**	**180**	**214**	**298**	**390**	**456**	**300**	**2,612**
410: IV.1. General Environment Protection, Total	1	2	0	4	0	6	6	14	6	7	2	2	**52**
430: IV.2. Other Multisector, Total	52	145	91	49	215	209	174	200	291	383	454	297	**2,560**
500: VI. Commodity Aid / General Prog. Ass., Total	**29**	**73**	**117**	**111**	**93**	**58**	**64**	**129**	**152**	**87**	**66**	**73**	**1,051**
510: VI.1. General Budget Support, Total	3	55	59	39	47	26	7	19	25	-	5	5	**292**
520: VI.2. Dev. Food Aid/Food Security Ass., Total	25	17	58	62	46	31	56	94	108	52	26	39	**615**
530: VI.3. Other Commodity Ass., Total	-	-	-	11	-	-	0	16	18	35	35	29	**144**
600: VII. Action Relating to Debt, Total	**44**	**-**	**-**	**-**	**-**	**58**	**11**	**-**	**108**	**-**	**-**	**-**	**221**
700: VIII. Humanitarian Aid, Total	**516**	**359**	**257**	**254**	**331**	**273**	**614**	**536**	**543**	**668**	**414**	**350**	**5,113**
720: VIII.1. Emergency Response, Total	456	267	155	121	185	182	426	295	347	521	325	303	**3,584**
730: VIII.2. Reconstruction Relief & Rehabilitation, Total	59	92	102	133	145	91	188	235	191	131	81	37	**1,483**
740: VIII.3. Disaster Prevention & Preparedness, Total	-	-	-	-	0	0	0	7	5	17	8	10	**47**
910: Administrative Costs of Donors, Total	**0**	**1**	**1**	**1**	**1**	**1**	**3**	**3**	**22**	**31**	**27**	**13**	**105**
930: Refugees in Donor Countries, Total	**27**	**17**	**55**	**27**	**8**	**5**	**3**	**1**	**1**	**4**	**2**	**7**	**157**
998: IX. Unallocated / Unspecified, Total	**21**	**91**	**58**	**29**	**18**	**42**	**43**	**18**	**10**	**8**	**257**	**21**	**615**

Source: OECD DAC CRS

Table 26. General and Sector Budget Support Disbursements 2002-2013: by Donor and by Sector

USD Million	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2002-13
General Budget Support by Donor													
All Donors, Total	-	-	-	-	47	191	43	35	33	20	18	-	**388**
IMF	-	-	-	-	-	55	36	17	9	19	18	-	**154**
EU Institutions	-	-	-	-	-	111	-	-	-	1	-	-	**111**
Canada	-	-	-	-	28	26	7	-	-	-	-	-	**62**
Australia	-	-	-	-	-	-	-	0	19	-	-	-	**19**
Germany	-	-	-	-	19	-	-	-	-	-	-	-	**19**
Sweden	-	-	-	-	-	-	-	18	-	-	-	-	**18**
France	-	-	-	-	-	-	-	-	5	-	-	-	**5**
Ireland	-	-	-	-	0	-	-	-	-	-	-	-	**0**
Sector Budget Support by Donor													
All Donors, Total	-	-	80	79	-	81	-	59	-	-	-	53	**352**
IDA	-	-	80	79	-	81	-	37	-	-	-	51	**328**
Canada	-	-	-	-	-	-	-	22	-	-	-	-	**22**
EU Institutions	-	-	-	-	-	-	-	-	-	-	-	2	**2**
Czech Republic	-	-	-	-	-	-	-	-	-	-	-	0	**0**
Sector Budget Support by Sector													
1000: Total All Sectors	-	-	80	79	-	81	-	59	-	-	-	53	**352**
450: Total Sector Allocable	-	-	80	79	-	81	-	59	-	-	-	53	**352**
100: I. Social Infrastructure & Services, Total	-	-	72	59	-	54	-	51	-	-	-	18	**254**
110: I.1. Education, Total	-	-	-	-	-	-	-	10	-	-	-	-	**10**
120: I.2. Health, Total	-	-	-	-	-	-	-	-	-	-	-	1	**1**
150: I.5. Government & Civil Society, Total	-	-	64	59	-	54	-	40	-	-	-	16	**234**
151: I.5.a. Government & Civil Society-general, Total	-	-	64	59	-	54	-	40	-	-	-	16	**234**
15110: Public sector policy and adm. management	-	-	28	36	-	20	-	17	-	-	-	-	**101**
15111: Public finance management	-	-	34	23	-	34	-	18	-	-	-	16	**126**
15112: Decentralisation and support to subnational govt.	-	-	2	-	-	-	-	5	-	-	-	-	**7**
152: I.5.b. Conflict, Peace & Security, Total	-	-	-	-	-	-	-	-	-	-	-	-	**-**
160: I.6. Other Social Infrastructure & Services, Total	-	-	8	-	-	-	-	-	-	-	-	-	**8**

USD Million	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2002-13
200: II. Economic Infrastructure & Services, Total	-	-	4	12	-	27	-	4	-	-	-	20	**67**
210: II.1. Transport & Storage, Total	-	-	-	-	-	-	-	-	-	-	-	2	**2**
21020: Road transport	-	-	-	-	-	-	-	-	-	-	-	2	**2**
220: II.2. Communications, Total	-	-	-	-	-	-	-	-	-	-	-	16	**16**
230: II.3. Energy, Total	-	-	-	-	-	6	-	-	-	-	-	2	**9**
23010: Energy policy and admin. management	-	-	-	-	-	6	-	-	-	-	-	-	**6**
23040: Electrical transmission/distribution	-	-	-	-	-	-	-	-	-	-	-	2	**2**
240: II.4. Banking & Financial Services, Total	-	-	4	12	-	6	-	4	-	-	-	-	**27**
250: II.5. Business & Other Services, Total	-	-	-	-	-	14	-	-	-	-	-	-	**14**
300: III. Production Sectors, Total	-	-	4	8	-	-	-	4	-	-	-	7	**24**
320: III.2. Industry, Mining, Construction, Total	-	-	4	8	-	-	-	4	-	-	-	7	**24**
321: III.2.a. Industry, Total	-	-	4	8	-	-	-	-	-	-	-	-	**12**
322: III.2.b. Mineral Resources & Mining, Total	-	-	-	-	-	-	-	4	-	-	-	7	**12**
400: IV. Multi-Sector / Cross-Cutting, Total	-	-	-	-	-	-	-	-	-	-	-	8	**8**

Source: OECD DAC CRS

Attachment H: Assessing Technical and Political Feasibilities of Reform Options

Table 27. Reform Option Review: Technical and Political Feasibility Risk-Impact Ratings – An example

No.	PFM Reform Area (GoIRA) / Safeguard Conditions (Donors)	Political Benefit	Fiduciary Risk Reduction Benefit	Budget Execution Impact	Impact	Risk of Failure						Political Risk
						Aggregate Weighted Risk of Failure	Visibility (high visibility - low risk)	Time Required	No of Institutions Involved	Behaviour Change Required	Complexity of Work	
1	**MTEF - Introduce incremental budgets established by letter from the President** requesting bring forward submissions (rest get FE baseline as adjusted): i) 3 FEs as hard baselines; ii) differences explained fully - estimates variations from indexation and demand drivers and new policies; iii) NPPs fully costed and independently verified and locked in FEs once Cabinet Agrees.	**Strongly empowers President to target new policy and savings.** Reduces arbitrage opportunities during budget process including within Administration and between Government and National Assembly.	Allow clarity on intention of spending at NPP specification. Reduces administrative burden during budget as only those ministries requested to bring forward a submission do so. Helps deliver fiscal disipline.	Predictable financing helps budget execution.	**High**	**Substantial**	High	High	High	High	Substantial	**Moderate**
2	**Defragmentation** of development and operating budgets - including **merging of MoE and MoF and then creating two new ministries: MoF (expenditure) and Treasury** (revenue and macro). Aid is in Treasury and staffed with economists and PFM people	**Delivers political separation between revenue and expenditure and weakens political powers of spending ministries** through targeted political opaqueness (that helps deliver strategic allocations and fiscal discipline). Treasury and Finance separation ensures power is at the centre - less people knowing details of revenue and expenditure issues/directions. Budget defragmentation empowers President/Cabinet and reduces power of donors as resource allocation decisions for operating an development expenditures are done at the same time	One plan one budget. Allows consideration of budget as a whole to deliver allocative efficiency - allocations go to areas that have the biggest impact.	Provides the framework to deliver distributive efficiency. Flexibility to ensure allocations actually get distributed to areas that deliver the biggest impact.	**High**	**Substantial**	High	High	High	High	High	**High**
3	**Consolidate DMs** to 2 in MoF - Finance and Treasury Department of Accounting and Expenditure and Department of Strategy and Revenue. Then can have 2 DMs for Treasury and 2 DMs for Finance after 2nd restructure	as above	as above	as above	**Substantial**	**Low**	Substantial	Low	Low	Low	Low	**Substantial**
4	**Establish a powerful Office of the President** - structure and key staffers. Towards an Office of the President and CoM (OoPC)	**Ensures the Office of the President is capable** and has the right structure and team to deliver results	All roads lead to the president. Social network analysis reveals that central agencies have the biggest workload responding to the most amount of different players.	Responsive and quality decision making helps budget execution	**High**	**Low**	High	Low	Low	Low	Substantial	**Substantial**
5	**Establishment of various conflict and political priority funds** - established under national security provisions	**Discretionary funds mandatory** for any country benevolent leader.	The cost to purchase a peace dividend. Reliance on slush funds can be reduced over time.	Only potential if national security spending is well planned.	**High**	**Low**	High	Low	Low	Low	Low	**Substantial**
6	**Internal Audit - 5 year plan to attain broad compliance with IPSIA** (and INTOSAI on internal auditing) and introduce high level fiscal intelligence systems (e.g. IT audits)	**External independence of internal audit and clear internal reporting lines provides politically powerful information** to the Minister (and President) - fiscal intelligence	Early warning signal, mitigates fiduciary risks	Established continuous improvement for better budget execution	**Low**	**Moderate**	Low	Low	Moderate	Moderate	Moderate	**Moderate**

No.	PFM Reform Area (GoIRA) / Safeguard Conditions (Donors)	Political Benefit	Fiduciary Risk Reduction Benefit	Budget Execution Impact	Impact	Risk of Failure						Political Risk
						Aggregate Weighted Risk of Failure	Visibility (high visibility - low risk)	Time Required	No of Institutions Involved	Behaviour Change Required	Complexity of Work	
7	**Stop Appropriation Controls on Non-Discretionary Budget** Projects Grant agreements provide the original multi-year appropriation. Requires formal legal opinion to verify. Ensure donors sign off on non-discretionary budget estimates.	**Reduce perverse incentives of MPs** during budget process (assuming they do try to influence the non-discretionary budget under Article 91.2 of constitution)	2nd implicit appropriation having adverse consequences – opportunities for corruption (e.g. payment for allotments etc) and reduction of red tape. Free up space for more targeted oversight - appropriation and cash controls not needed on projects that are not cash constrained (Non-discretionary grants are fully funded).	Allows under budgeting. Removal of unnecessary cash management controls reduce delays. No need for cash management controls as: i) original appropriation is the grant agreement; and ii) cash is not constrained as covered under multi-year funding agreement. Under budgeting in a year has little impact as more cash is available from donor, meaning high budget execution rates possible just by being conservative .	**High**	**Moderate**	High	Low	Moderate	High	Low	**Moderate**
8	**Return to automatic authorisation of annual allotments** equal to appropriation. Use of sequestration authority of auto allotment to manage cash. **Publish proposed secondary unit and provincial allotments in budget papers** not inconsistent with PFEML (Art 52) Treasury Accounting Manual and PFEML gives power to Treasury to manage allotments. Budget manual gives power to Budget to manage allotments. Desire to control allotment process clear.	**Helps remove one of the power dynamics between Treasury and Budget** - to control the issuance and revocation of allotments. Provides clarity on proposed allocations to provinces and secondary spending units	Reduced red tape and opportunities for facilitation payments in awarding and revocation of allotments	Removal of unnecessary cash management controls reduce delays. Puts onus back on getting the original budget accurate (current arrangements gives perverse political incentives to over budget then manage through warrant process).	**High**	**Moderate**	High	Low	Moderate	High	Low	**Moderate**
9	**Delegate more budget control to DG Customs** and consider revenue sharing incentives. **Same for Tax** if right CEO in place. Work towards separation of tax policies and tax collection (i.e. tax and customs authorities - when the time is right - i.e. relatively good levels of cleanliness)	**Provides politically powerful appointment powers** to the president - head of Customs and Tax Authorities.	Provides the right incentives to deliver on revenue policy objectives - by raising the cost of corruption	More reliable revenue forecasts	**Substantial**	**Moderate**	Substantial	Moderate	Low	High	Low	**High**
10	**Integrating and automating Payroll and HR**	**The President decides the size of the public service** - not through the local level power dynamics in ministries	A pre-condition to reduce the wage bill through reduction in ghost workers, absenteeism, compliance with leave entitlements etc	Faster and more reliable payment of salaries	**Substantial**	**High**	Moderate	High	High	High	Substantial	**Moderate**
11	**Establish policy of Portfolio Budget Statements and Annual Reports**	**Helps the President to make his minsters more accountable for their performance** by making them more accountable to the public	Foundation for accountability - those responsible for implementing should be producing budgets and annual reports (not MoF). Also important for comparability of budgets and accounts.	Better accountability of those responsible for delivering improves probability of better performance	**High**	**Moderate**	High	Moderate	Substantial	Substantial	Substantial	**Moderate**
12	**Constitutional Review - formal legal opinion required:** HoP has power to decide development program (Article 91.2)	**Weakens power of MPs and empowers President** through a stronger Budget Department - backed up by legal opinion.	Positive constitutional legal opinion would ensure MPs no longer turn up to budget department demanding decisions on pet projects	Allows better projects to be chosen based on economic rationale rather than low level political vested interests, leading to better budget execution rates.	**High**	**Low**	High	Low	Low	Low	Moderate	**High**

No.	PFM Reform Area (GoIRA) / Safeguard Conditions (Donors)	Political Benefit	Fiduciary Risk Reduction Benefit	Budget Execution Impact	Impact	Risk of Failure						Political Risk
						Aggregate Weighted Risk of Failure	Visibility (high visibility - low risk)	Time Required	No of Institutions Involved	Behaviour Change Required	Complexity of Work	
13	**FMIS - Integration of procurement and contract management steps** are in AFMIS	**President can safely reduce opportunities for corruption** without taking on any powerful individual.	Ensures no money can move or obligations set unless step is on the system. Helps meet procurement disclosure standards	Better quality and faster budget execution - slow for 6-12 months though.	**High**	**Substantial**	High	High	High	High	Substantial	**Moderate**
14	**FMIS - Reform business process and add functionality to AFMIS to ensure invoice dates are entered into** AFMIS within 2 days of receipt	**President can safely reduce opportunities for corruption** without taking on any powerful individual.	Reduces opportunities for facilitation payments / bribery around the old strategy of delaying contract payments. Provides foundation system to easily detect facilitation payment risk through simple IT auditing.	Better quality and faster budget execution - slow for 6 months though.	**Substantial**	**Substantial**	High	Substantial	High	High	Moderate	**Substantial**
15	**FMIS - Expand functionality of Treasury Single Account** - Establish sub-accounts for primary budget units (and provinces)	**Weakens power of Treasury officials and line agencies** to engage in systemic or opportunistic corruption	Allows PBU and Provincial Bank reconciliation, allowing greater targeting and IT auditing of high risk areas	More accountability and increased probability of detecting corruption provides incentives leads to better budget execution	**Substantial**	**Substantial**	High	High	High	High	Moderate	**Substantial**
16	**Deliver comparability of Budgets and End of Year Accounts** and enforce PEFEML 55.2 to have Financial statements submitted for audit and introduce deadlines (currently on track for 1394)	**Weakens the power of Finance and Treasury** to engage in inappropriate power struggles. Increases public and internal accountabilities.	Intention of spending becomes clear reducing fiduciary risks. Comparability also improves accountability.	Clarity of intentions of spending is a pre-condition for quality and timely budget execution	**High**	**Moderate**	High	Moderate	Substantial	Substantial	Substantial	**Moderate**
17	**MoF Admin and Finance and PIU integration** - and introduce an orderly and strategic internal budget process for MoF	Limited	Part of deproliferation and defragmentation agenda, reducing systemic fiduciary risks	Delivers an orderly internal budget process, that helps deliver credible budgets with high budget execution rates	**Moderate**	**Substantial**	Low	Moderate	Moderate	Substantial	Moderate	**Low**
18	**External Audit** - Establish rules for auditing of financial statements and set accounting and auditing standards	**Empowers President to deliver high standards but in a way that still protects the president** (INTOSAI provides much protection). Auditor General is still a political appointee through the Government's power in the legislature. Standards also make it clear what should be done prior and after audits.	Foundation for accountability and getting the continuous improvement cycle to work as intended. Part of the trial and error cycle.	Follow up on audits and threats of solid audits provide incentives to execute well and fully.	**High**	**High**	Substantial	High	High	High	High	**Moderate**
19	**Electronic Payments for staff and suppliers**	**President can safely reduce opportunities for corruption** without taking on any powerful individual.	All payments can be tracked. Significantly reudced opportunities of corruption and fraud.	Faster payment processing and reduced corruption improves budget execution.	**High**	**Moderate**	High	Substantial	Substantial	Substantial	Moderate	**Moderate**
20	**UNCAC implementation**	**Provides the foundation program to deliver a real respect for the rule of law.** Needs to be done carefully.	Succesful reduction in corruption risk through gradual increasing broad compliance with UNCAC unambigusously reduces fiduciary risk	Succesful reduction in corruption risk through gradual increasing broad compliance with UNCAC results in improved budget execution - quality and timeliness	**High**	**Substantial**	High	High	High	High	High	**High**
21	**Team-based Performance Management** of Strategic Plans>Rolling 5 year annual action plans: The input-output results focused implementation mechanism	**The foundation management mechanism to help the President secure his intended results** - teams not themes - healthy competition between teams.	High since performance management is the tool to improve performance	High since performance management is the tool to improve performance	**High**	**Substantial**	High	High	Substantial	High	Moderate	**Low**
22	**Police Salaries** - earmarked budget support without overhead (transfer from LOFTA)	**President is paying salaries not donors** providing much more powers on internal affairs.	More responsive, accountable and auditable payroll system - especially if linked to the Payroll HR integration program above.	Improved quality of budget execution if linked to payroll HR integration program above	**Moderate**	**Moderate**	High	Moderate	Moderate	Moderate	Low	**Moderate**

Table 28. Other Strategic Initiative Proposed by - Treasury

Treasury Initiative	Objective
Enhancement of AFMIS (upgrade to Version 7)	Improve accessibility, rollout to districts and secondary spending units and enabling deployment of additional modules
Data Warehousing	Critical for business intelligence reporting and data analysis
Roll-out AFMIS to municipalities	Expand reach and focus on key service areas
Roll-out to overseas Embassies	Reduce exposure to fiduciary risks
Zero Balance Fund Management (sweeping)	Facilitate prov-incial budget execution and improve cash management and maximise interest earnings and minimise any overdraft expenses
Purchasing and Assets Module	Gaining control over procurement, contracts and assets
Electronic Funds Transfers	Significantly reducing fiduciary risks – at check processing, check collection and check cashing points
Expanding payroll verification system	To expand mobile financing systems in inaccessible and distant regions for key public servants (police and teachers)
Introducing stronger payroll controls (module)	To end manual payroll system and improve linkages with HR and other forensic accounting systems (e.g. IT payroll audits)
Developing an Accounting Profession	Establishing education institutions that provide credible certification of accounting and auditing standards

For more information see "Strategic Initiative – Treasury Report".

Attachment I: What are the Factors that Determine the Levels of Budget Support and Does Fiduciary Risk Matter?

1. **The answer to the question what determines levels of budget support a theory is needed for testing.** One theory is implicitly provided by eligibility requirements that donors set for budget support operations. A review[ix] of the legal basis for the provision of budget support by bilateral and multilateral aid agencies reported that there were Common eligibility requirements common diagnostics and types of analysis that are used to help budget support decision making.

2. Common eligibility requirements found were:

- Demonstrated commitment and ownership;
- A well-defined development/reform strategy;
- Public financial management is sufficiently transparent, accountable, and effective (but not necessarily minimum thresholds - direction and magnitude of change from initial quality mattered); and
- A stability-oriented macroeconomic policy.

3. **Common Diagnostics** and analysis used to help decision making included:

- Fiduciary and Development Risk Assessments inherent in PFM systems for both point in time (need) and over time (performance – to assess direction and magnitude of change) – use of diagnostics such as PEFA;
- Assessment of the PFM Systems Strengthening Program to determine level of ownership and credibility;
- Institutional Assessment of capacity to implement program and spend resources well;
- Assessment of impact and results focus;
- Assessment of resource envelope and costing of strategic plans.

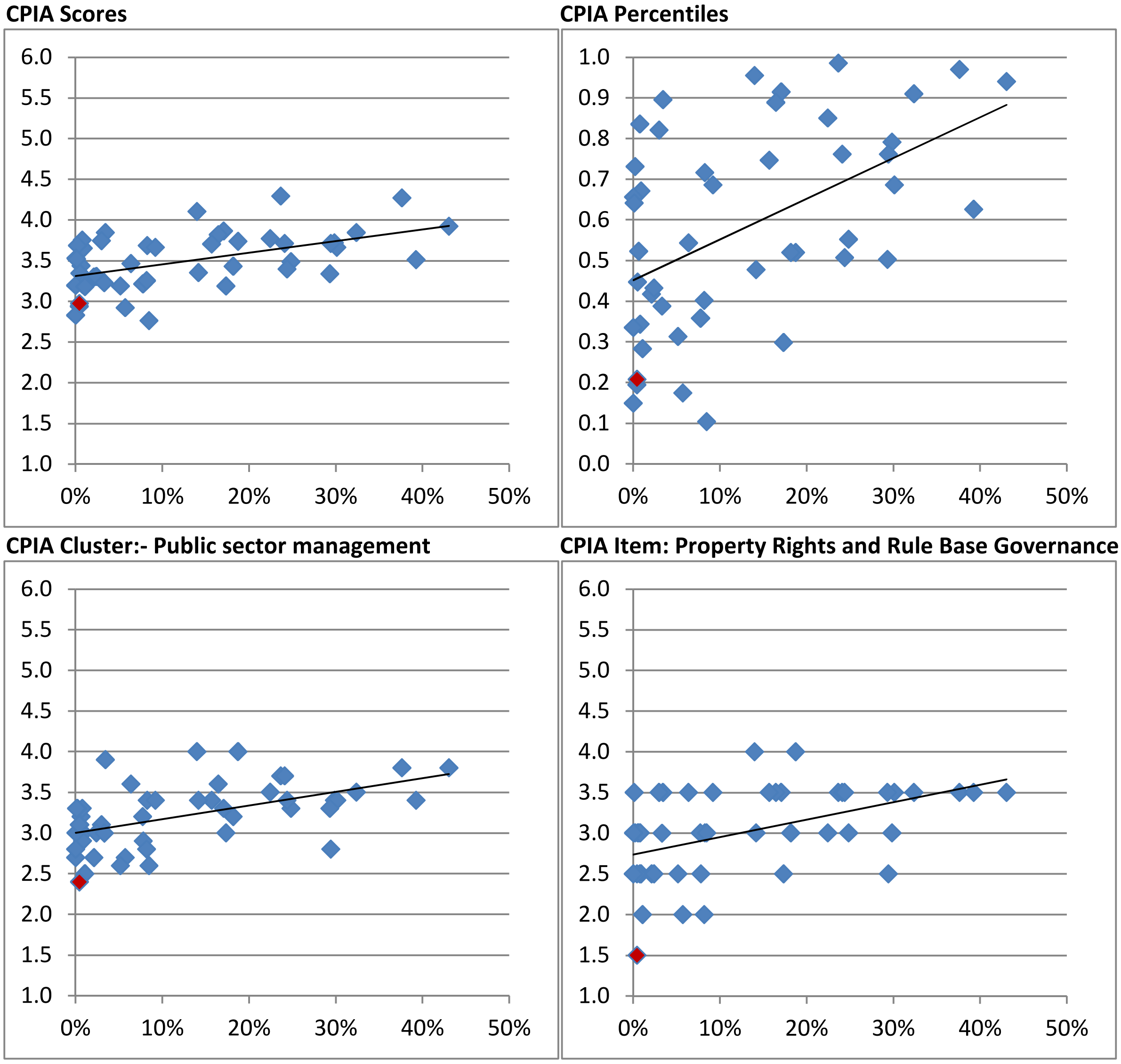
4. **The common eligibility requirements and required diagnostics reveals a position that aid agencies do care about fiduciary risks and demonstrated performance** when it comes to allocating aid through budget support. The common use of diagnostics indicates that real fiduciary risk rather than perceived fiduciary risk is also well tested before making decisions to provide budget support.

5. **To test whether these eligibility requirements are actually applied in practice is more difficult**, but a rapid analysis was undertaken in 2012 using OECD/DAC CRS data on budget support levels in recipient countries as share of their total aid and CPIA 2009 Data. CRS DAC data has recently been cleansed, so Budget support information was only available for 2010.

6. **The findings indicate that risk level does matter** (see Figure 38 and Figure 39):

- **Medium to strong correlations** with the proportion of aid received were found in:
    - CPIA overall scores and percentiles; and
    - CPIA cluster score for Public Sector Management and Institutions and
    - CPIA item scores for Property Rights and Rule Based Governance
- **Medium correlations** with the proportion of aid received
    - CPIA item scores for Budget and Financial Management.
    - CPIA cluster scores for Economic Management,
    - CPIA item scores Transparency.

Figure 38. <u>Medium to Strong Correlations</u> with All Forms of Budget Support as a Percentage of Total Aid Received



Red diamonds indicates Afghanistan.

7. **An interesting finding is that while there medium to strong correlations, some relatively high scoring countries get very small amounts budget support**. Results indicate that other factors are at play, including other criteria not reviewed but part of eligibility criteria raised above (e.g. performance over time (here testing against change in CPIA scores would be necessary), or other influences including geo-political, concern for reputation risks and vested interests.

8. **Interesting finding applicable to Afghanistan** are that the quality of budget and financial management systems in that country would indicate, ceteris paribus, that Afghanistan would expect to receive 20% of its aid in some form of budget support (see Figure 39). More generally and looking at relative performance of other countries, it would be not unexpected to see Afghanistan receive around 10% of its ODA in some form of Budget support.

9. **There are other factors that could influence the level of budget support provided.** These include: value for money, aid effectiveness (e.g. increase in HDI and/or reduction in risk), and aid cost-effectiveness (e.g. incremental cost per fixed HDI increase and per fixed Risk Reduction). Some research questions include:

- **Is there evidence that budget support can produce the same outcomes at lower cost or better outcomes for same cost?** Maybe, but further research is required.
- **Can conditionality be used to help reduce fiduciary risk** (ceilings, floors, performance monitoring measures/targets in high risk are, mixing policy with process condition etc)? Possibly, but further research is required.

Figure 39. Medium Correlations with All Forms of Budget Support as a Percentage of Total Aid Received

Red diamonds indicates Afghanistan.

Table 29. Who provides the Most Budget Support?

	2010 Budget Support Disbursements (US$ 'm)	% of Total AID	2010 - Share of Budget Support of Entity Total Aid
United States	1,855.8	1.3%	6.8%
United Kingdom	974.3	0.7%	11.6%
Japan	888.4	0.6%	5.9%
France	430.3	0.3%	4.7%
Canada	257.7	0.2%	6.5%
Netherlands	243.3	0.2%	4.9%
Australia	226.3	0.2%	7.0%
Sweden	137.8	0.1%	4.7%
Germany	128.7	0.1%	1.4%
Norway	125.3	0.1%	3.5%

Table 30. Who give most of their aid in the form of Budget Support?

	2010 Budget Support Disbursements (US$ 'm)	% of Total AID	2010 - Share of Budget Support of Entity Total Aid
Total	**12,432.48**	**8.4%**	**100.00%**
IMF (Concessional Trust Funds)	1,345.61	0.9%	45.26%
IDA	2,558.31	1.7%	21.10%
EU Institutions	2,308.77	1.6%	18.37%
United Arab Emirates	87.88	0.1%	16.32%
New Zealand	43.39	0.0%	16.00%
Ireland	87.32	0.1%	14.87%
United Kingdom	974.32	0.7%	11.65%
Australia	226.33	0.2%	6.95%
United States	1,855.75	1.3%	6.78%
Finland	56.71	0.0%	6.76%
Canada	257.69	0.2%	6.49%

Attachment J: Summary of Types and Components of Budget Support

1. Type:	**Program, Agency, Sector or General Budget Support.** Program is finance programs, agency is hypothecated for an agency only, sector is for agencies and/or issues within a sector and general is for the whole budget.
2. Timeframe	**Annual, multiyear or non-lapsing options.** Best practice: for predictability and sustainability of resourcing for targeting system improvements and donors' use of them is a 4+ year rolling financing program.
3. Directness	**Direct or indirect financing** Direct is when delivery of foreign currency denominated foreign assistance is channelled to Government through standard Government Banking Arrangements (Central Banks). Direct channelling of aid increases foreign exchange rate risks borne by recipient but can be managed through hedging if appropriate. Indirect is when donor exchanges foreign exchanged at home, or through local commercial banks.
4. Structure	**Programmatic: A joint monitoring matrix of agreed actions** is set annually drawn from a strategic or programmatic plan (i.e. not a multi-tranche operation, though a predictable multi-year resource envelope will be established) and through.
5. Condition Types	**General, specific and/or floating:** General conditions are basically eligibility conditions for program to start and continue. Specific conditions related to conditions for disbursement of aid – i.e. what constitutes satisfactory performance. They are generally designed in a way to help: i) frame policy dialogue between leadership and development partners; ii) manage fiduciary and development risks; and iii) provide clarity on mutual obligations. Floating conditions are conditions that have no deadlines. Floating deadlines associated with targets and tranche disbursements but are are only indicative and not fixed. Floating conditions provide flexibility in keeping with principles of a partnership approach and risk sharing.
6. Targeting	**Untargeted or targeted financial assistance:** Targeted financing establishes tight earmarking against an economic (object) classification (e.g. repairs and maintenance), sub-program (car maintenance sub-program) or specific intended purpose (non-military vehicle maintenance). Targeting often establishes a set of "eligible expenditures" (white lists). Specification of ineligible expenditures (black lists) is also a form of targeting. White lists and black lists are used primarily to mitigate reputation and political risks of donor not in attempt to reduce exposure to fiduciary risk.
7. Timing of financial assistance	**Ex-ante or Ex-poste.** Ex-ante financing (funds provided in advance of expenditure) is primary. Ex-ante financial assistance enables predictability of resources, promotes in-year dialogue around performance and helps management of risk. Ex-poste financing (reimbursement) of specific expenditures within the budget or of specific budget lines as agreed during the year allowed based on need, performance and availability of foreign assistance.
8. Variability of Tranches	**Fixed and/or Variable Tranches** Fixed tranches deliver predictability of resourcing. Variable tranches are based on performance to deliver positive incentives and stronger risk management. Tranche payments should be set within the context of the budget cycle to ensure predictability of funds for the budget year – i.e. variable performance payments should be determined prior to publishing of budget papers to ensure the variable amounts is included in revenues or financing lines (cash at bank if received in the year prior to the budget year).

Attachment K: World Wide Governance Indictors

Figure 40. World Wide Governance Indicator Trends for Afghanistan

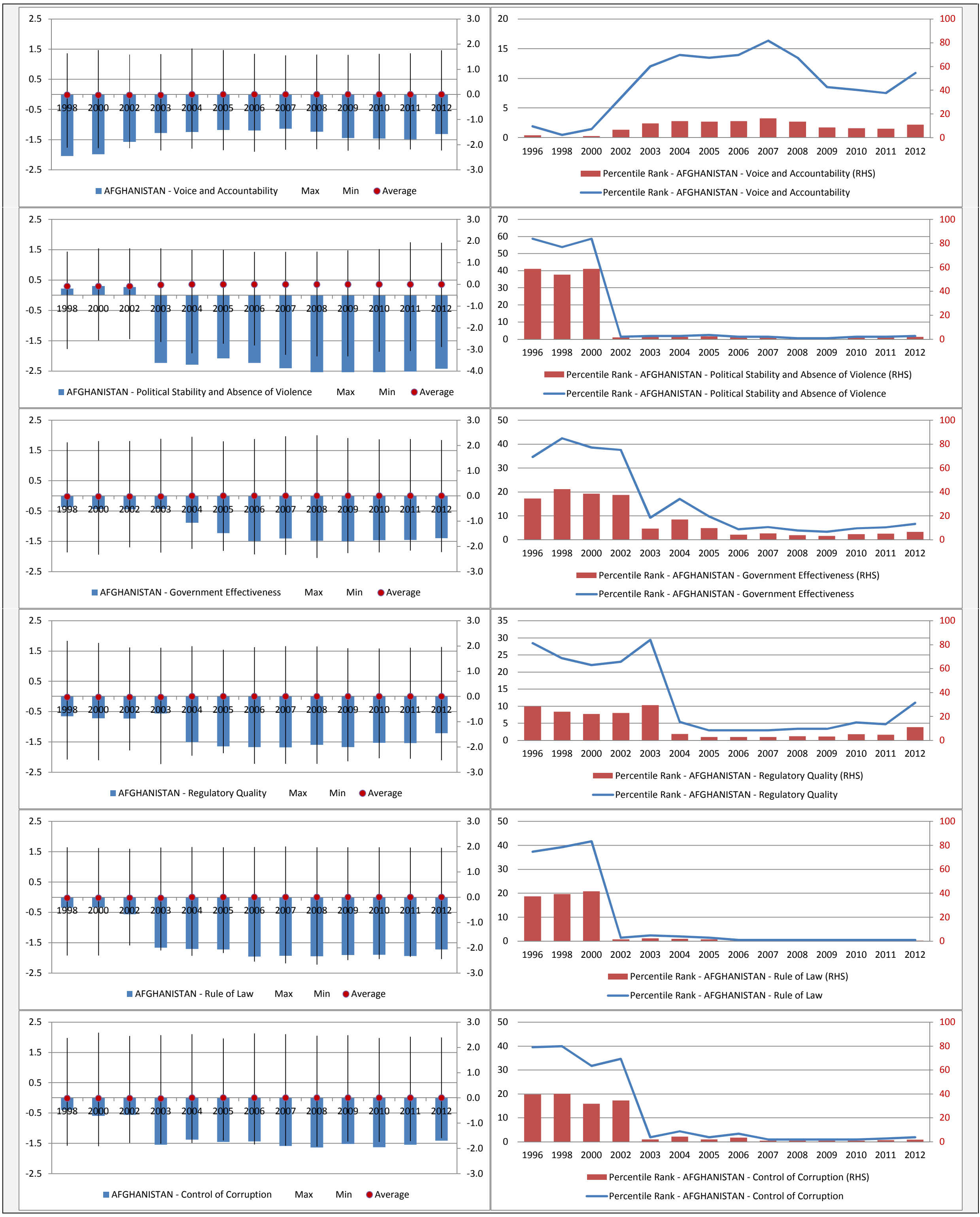


Figure 41. Transparency International: Corruption Perception Index Trends

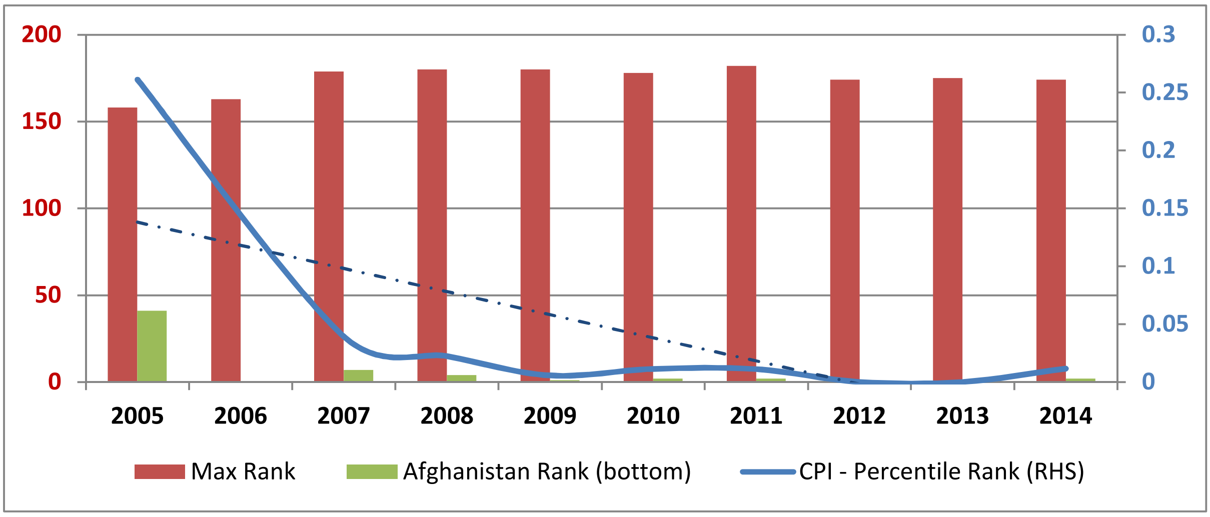


Figure 42. Freedom House - Freedom in the World Trends

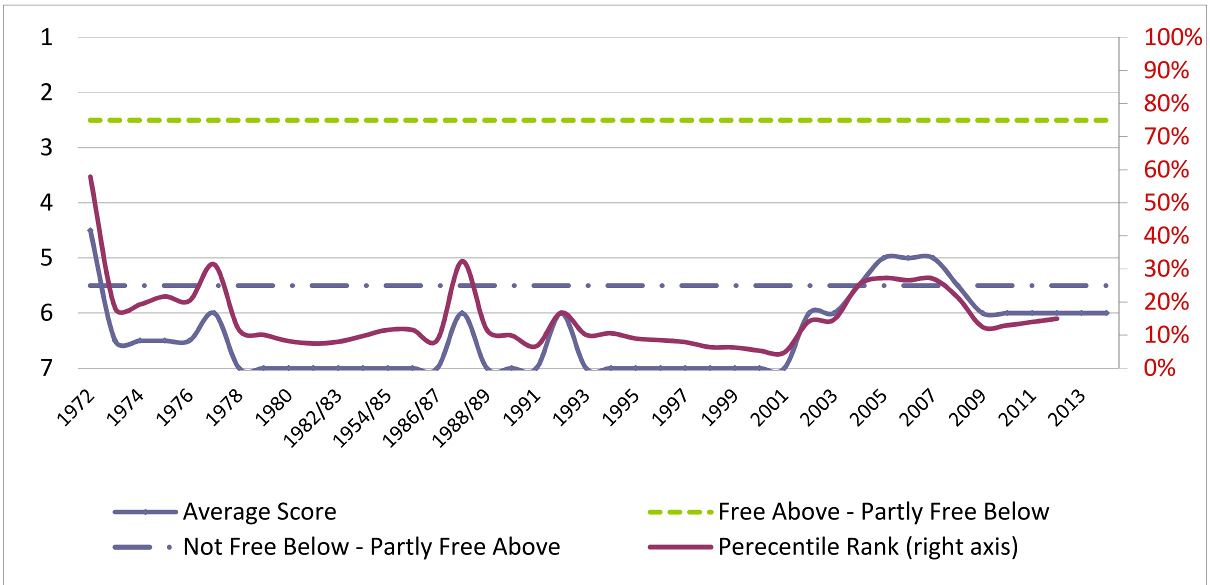
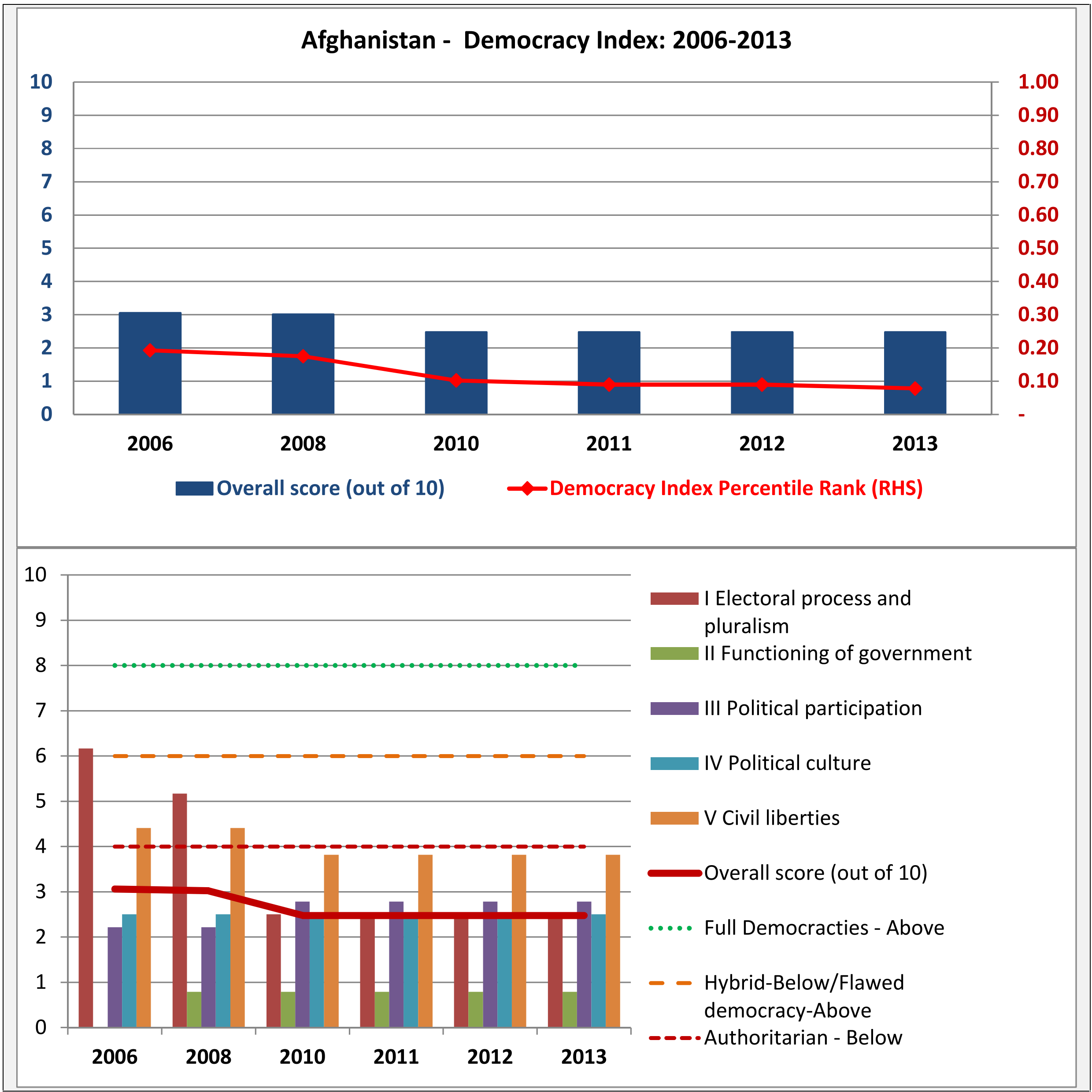


Figure 43. Economist Intelligence Unit: Democracy Index Trends



Attachment M: Open Government Eligibility Scores

Country	Budget Transparency	Score	Access to Information	Score	Asset Disclosure (Law)	Asset Disclosure (Public Access)	Score	Citizen Engagement (EIU CL Score)	Score	Total Score	Total Pos	%	Rank
ARGENTINA	4	4	law	4	Yes	Yes	4	7.94	4	16	16	**1**	**1**
AUSTRALIA		0	law	4	Yes	Yes	4	10	4	12	12	**1**	**1**
AUSTRIA		0	law	4	Yes	Yes	4	9.41	4	12	12	**1**	**1**
BELGIUM		0	law	4	Yes	Yes	4	9.41	4	12	12	**1**	**1**
BRAZIL	4	4	law	4	Yes	Yes	4	9.12	4	16	16	**1**	**1**
BULGARIA	4	4	law	4	Yes	Yes	4	8.24	4	16	16	**1**	**1**
CANADA		0	law	4	Yes	Yes	4	10	4	12	12	**1**	**1**
CHILE	4	4	law	4	Yes	Yes	4	9.71	4	16	16	**1**	**1**
CROATIA	4	4	law	4	Yes	Yes	4	8.24	4	16	16	**1**	**1**
CZECH REPUBLIC	4	4	law	4	Yes	Yes	4	9.41	4	16	16	**1**	**1**
DENMARK		0	law	4	Yes	Yes	4	9.41	4	12	12	**1**	**1**
DOMINICAN REP	4	4	law	4	Yes	Yes	4	7.65	4	16	16	**1**	**1**
ESTONIA		0	law	4	Yes	Yes	4	8.82	4	12	12	**1**	**1**
FINLAND		0	law	4	Yes	Yes	4	9.71	4	12	12	**1**	**1**
GERMANY	4	4	law	4	Yes	Yes	4	9.12	4	16	16	**1**	**1**
GREECE	4	4	law	4	Yes	Yes	4	9.41	4	16	16	**1**	**1**
HUNGARY	4	4	law	4	Yes	Yes	4	8.24	4	16	16	**1**	**1**
ICELAND		0	law	4	Yes	Yes	4	9.71	4	12	12	**1**	**1**
IRELAND		0	law	4	Yes	Yes	4	10	4	12	12	**1**	**1**
ITALY	4	4	law	4	Yes	Yes	4	8.53	4	16	16	**1**	**1**
JAPAN		0	law	4	Yes	Yes	4	9.41	4	12	12	**1**	**1**
KOREA, SOUTH	4	4	law	4	Yes	Yes	4	8.53	4	16	16	**1**	**1**
LATVIA		0	law	4	Yes	Yes	4	9.12	4	12	12	**1**	**1**
LITHUANIA		0	law	4	Yes	Yes	4	9.71	4	12	12	**1**	**1**
MACEDONIA	4	4	law	4	Yes	Yes	4	7.94	4	16	16	**1**	**1**
MALTA		0	law	4	Yes	Yes	4	9.71	4	12	12	**1**	**1**
MOLDOVA		0	law	4	Yes	Yes	4	7.94	4	12	12	**1**	**1**
MONGOLIA	4	4	law	4	Yes	Yes	4	8.24	4	16	16	**1**	**1**
NETHERLANDS		0	law	4	Yes	Yes	4	9.41	4	12	12	**1**	**1**
NEW ZEALAND	4	4	law	4	Yes	Yes	4	10	4	16	16	**1**	**1**
NORWAY	4	4	law	4	Yes	Yes	4	10	4	16	16	**1**	**1**
PERU	4	4	law	4	Yes	Yes	4	8.53	4	16	16	**1**	**1**
POLAND	4	4	law	4	Yes	Yes	4	9.12	4	16	16	**1**	**1**
PORTUGAL	4	4	law	4	Yes	Yes	4	9.41	4	16	16	**1**	**1**
ROMANIA	4	4	law	4	Yes	Yes	4	8.24	4	16	16	**1**	**1**
SLOVAKIA	4	4	law	4	Yes	Yes	4	9.12	4	16	16	**1**	**1**
SOUTH AFRICA	4	4	law	4	Yes	Yes	4	8.53	4	16	16	**1**	**1**
SPAIN	4	4	law	4	Yes	Yes	4	9.41	4	16	16	**1**	**1**
SWEDEN	4	4	law	4	Yes	Yes	4	10	4	16	16	**1**	**1**
SWITZERLAND		0	law	4	Yes	Yes	4	9.41	4	12	12	**1**	**1**
UNITED KINGDOM	4	4	law	4	Yes	Yes	4	9.41	4	16	16	**1**	**1**
UNITED STATES	4	4	law	4	Yes	Yes	4	8.53	4	16	16	**1**	**1**
ALBANIA	4	4	law	4	Yes	Yes	4	7.35	3	15	16	**0.9375**	**43**
GEORGIA	4	4	law	4	Yes	Yes	4	5.88	3	15	16	**0.9375**	**43**
INDONESIA	4	4	law	4	Yes	Yes	4	6.76	3	15	16	**0.9375**	**43**
KYRGYZ REPUBLIC	4	4	law	4	Yes	Yes	4	5.29	3	15	16	**0.9375**	**43**
MEXICO	4	4	law	4	Yes	Yes	4	7.35	3	15	16	**0.9375**	**43**
NICARAGUA	4	4	law	4	Yes	Yes	4	7.06	3	15	16	**0.9375**	**43**
PAKISTAN	4	4	law	4	Yes	Yes	4	5.29	3	15	16	**0.9375**	**43**
PHILIPPINES	4	4	constit	3	Yes	Yes	4	9.12	4	15	16	**0.9375**	**43**
SERBIA	4	4	law	4	Yes	Yes	4	7.35	3	15	16	**0.9375**	**43**
SLOVENIA	4	4	law	4	Yes	Yes	4	8.82	4	15	16	**0.9375**	**43**
UGANDA	4	4	law	4	Yes	Yes	4	6.18	3	15	16	**0.9375**	**43**
CAPE VERDE		0	constit	3	Yes	Yes	4	9.12	4	11	12	**0.9166**	**54**
MONTENEGRO		0	law	4	Yes	Yes	4	7.06	3	11	12	**0.9166**	**54**
COLOMBIA	4	4	law	4	Yes	No	2	8.82	4	14	16	**0.875**	**56**
EL SALVADOR	4	4	law	4	Yes	No	2	8.53	4	14	16	**0.875**	**56**
FRANCE	4	4	law	4	Yes	No	2	8.53	4	14	16	**0.875**	**56**
INDIA	4	4	law	4	Yes	No	2	9.41	4	14	16	**0.875**	**56**
KENYA	4	4	constit	3	Yes	Yes	4	5.29	3	14	16	**0.875**	**56**
MALAWI	4	4	constit	3	Yes	Yes	4	6.18	3	14	16	**0.875**	**56**
RUSSIA	4	4	law	4	Yes	Yes	4	4.12	2	14	16	**0.875**	**56**
TRINIDAD & TOBAG	4	4	law	4	Yes	No	2	8.24	4	14	16	**0.875**	**56**
ETHIOPIA		0	law	4	Yes	Yes	4	4.41	2	10	12	**0.83333**	**64**
JAMAICA		0	law	4	Yes	No	2	9.12	4	10	12	**0.83333**	**64**

Country	Budget Transparency	Score	Access to Information	Score	Asset Disclosure (Law)	Asset Disclosure (Public Access)	Score	Citizen Engagement (EIU CL Score)	Score	Total Score	Total Pos	%	Rank
PANAMA		0	law	4	Yes	No	2	8.82	4	10	12	**0.83333**	**64**
PARAGUAY		0	law	4	Yes	No	2	8.24	4	10	12	**0.83333**	**64**
URUGUAY		0	law	4	Yes	No	2	10	4	10	12	**0.83333**	**64**
ARMENIA	2	2	law	4	Yes	Yes	4	5.88	3	13	16	**0.8125**	**69**
BOSNIA-HERZ'A	4	4	law	4	Yes	No	2	7.35	3	13	16	**0.8125**	**69**
COSTA RICA	4	4	constit	3	Yes	No	2	9.71	4	13	16	**0.8125**	**69**
GUATEMALA	4	4	law	4	Yes	No	2	7.35	3	13	16	**0.8125**	**69**
HONDURAS	4	4	law	4	Yes	No	2	6.47	3	13	16	**0.8125**	**69**
LIBERIA	2	2	law	4	Yes	Yes	4	5.59	3	13	16	**0.8125**	**69**
PNG	4	4	constit	3	Yes	No	2	8.24	4	13	16	**0.8125**	**69**
SIERRA LEONE	4	4	law	4	Yes	No	2	5.29	3	13	16	**0.8125**	**69**
THAILAND	2	2	law	4	Yes	Yes	4	6.76	3	13	16	**0.8125**	**69**
UKRAINE	4	4	law	4	Yes	No	2	7.06	3	13	16	**0.8125**	**69**
ANGOLA	2	2	law	4	Yes	Yes	4	3.24	2	12	16	**0.75**	**79**
AZERBAIJAN	4	4	law	4	Yes	No	2	4.71	2	12	16	**0.75**	**79**
BHUTAN		0	constit	3	Yes	Yes	4	3.53	2	9	12	**0.75**	**79**
GHANA	4	4	constit	3	Yes	No	2	6.76	3	12	16	**0.75**	**79**
GUYANA		0	law	4	Yes	No	2	7.06	3	9	12	**0.75**	**79**
ISRAEL		0	law	4	Yes	No	2	5.59	3	9	12	**0.75**	**79**
JORDAN	4	4	law	4	Yes	No	2	3.53	2	12	16	**0.75**	**79**
LUXEMBOURG		0	draft law	1	Yes	Yes	4	9.71	4	9	12	**0.75**	**79**
NAMIBIA	4	4		0	Yes	Yes	4	8.24	4	12	16	**0.75**	**79**
NIGERIA	2	2	law	4	Yes	Yes	4	3.53	2	12	16	**0.75**	**79**
TANZANIA	4	4	constit	3	Yes	No	2	5.59	3	12	16	**0.75**	**79**
TUNISIA	2	4	law	4	Yes	No	2	4.71	2	12	16	**0.75**	**79**
TURKEY	4	4	law	4	Yes	No	2	3.82	2	12	16	**0.75**	**79**
VENEZUELA	4	4	constit	3	Yes	No	2	5.88	3	12	16	**0.75**	**79**
Eligibility Cut-Off 75%													
BANGLADESH	2	2	law	4	Yes	No	2	7.06	3	11	16	**0.6875**	**93**
BOLIVIA	2	2	draft law	1	Yes	Yes	4	7.65	4	11	16	**0.6875**	**93**
ECUADOR	2	2	law	4	Yes	No	2	7.06	3	11	16	**0.6875**	**93**
KAZAKHSTAN	4	4	constit	3	Yes	No	2	4.41	2	11	16	**0.6875**	**93**
MOROCCO	4	4	constit	3	Yes	No	2	4.41	2	11	16	**0.6875**	**93**
MOZAMBIQUE	4	4	constit	3	Yes	No	2	4.12	2	11	16	**0.6875**	**93**
NEPAL	4	4	law	4			0	5.59	3	11	16	**0.6875**	**93**
SRI LANKA	4	4		0	Yes	Yes	4	5.59	3	11	16	**0.6875**	**93**
BELIZE		0	law	4	Yes	Yes	4		0	8	12	**0.66666**	**101**
GUINEA		0	law	4	Yes	No	2	2.65	2	8	12	**0.66666**	**101**
MALAYSIA	4	4	draft law	1	Yes	No	2	5.88	3	10	16	**0.625**	**103**
NIGER	2	2	law	4	Yes	No	2	5	2	10	16	**0.625**	**103**
SENEGAL	2	2	constit	3	Yes	No	2	7.06	3	10	16	**0.625**	**103**
TIMOR-LESTE	4	4		0	Yes	No	2	7.94	4	10	16	**0.625**	**103**
ZAMBIA	2	2	draft law	1	Yes	Yes	4	7.35	3	10	16	**0.625**	**103**
MADAGASCAR		0	constit	3	Yes	No	2	5	2	7	12	**0.58333**	**108**
AFGHANISTAN[15]	**2**	**2**	**draft law**	**1**	**Yes**	**Yes**	**4**	**3.82**	**2**	**9**	**16**	**0.5625**	**109**
BOTSWANA	4	4	draft law	1	No	No	0	9.41	4	9	16	**0.5625**	**109**
BURKINA FASO	2	2	constit	3	Yes	No	2	4.41	2	9	16	**0.5625**	**109**
CAMEROON	2	2	constit	3	Yes	No	2	3.82	2	9	16	**0.5625**	**109**
ALGERIA	2	2		0	Yes	Yes	4	4.41	2	8	16	**0.5**	**113**
ANTIGUA & BAR'A		0	law	4	Yes	No	2		0	6	12	**0.5**	**113**
CHINA	2	2	law	4	Yes	No	2	1.47	0	8	16	**0.5**	**113**
COTE D'IVOIRE	0	0	law	4	Yes	No	2	3.82	2	8	16	**0.5**	**113**
LEBANON	2	2	draft law	1	Yes	No	2	5.59	3	8	16	**0.5**	**113**
LESOTHO		0	draft law	1	Yes	No	2	7.06	3	6	12	**0.5**	**113**
MALDIVES		0	law	4	Yes	No	2		0	6	12	**0.5**	**113**
MAURITIUS		0		0	Yes	No	2	9.71	4	6	12	**0.5**	**113**
RWANDA	0	0	law	4	Yes	No	2	3.82	2	8	16	**0.5**	**113**

[15] **Afghanistan Eligibility Status:** Lost 2 points for Budget transparency by not publishing audit report. Lost 3 points for Access to Information by not having access to information laws (only draft). Lost 2 points for Citizen Engagement by only getting 3.82 for EIU civil liberties (a score of 5 under EIU required for one additional point). Full scores awarded for asset disclosures for public officials. By publishing audit reports (2 additional points) and including a access to information rights in the Constitution (1 additional point) would be enough to secure eligibility. Passage of freedom of information laws on its own would also be sufficient to secure eligibility.

Country	Budget Transparency	Score	Access to Information	Score	Asset Disclosure (Law)	Asset Disclosure (Public Access)	Score	Citizen Engagement (EIU CL Score)	Score	Total Score	Total Pos	%	Rank
ZIMBABWE	2	2	law	4	No	No	0	3.24	2	8	16	**0.5**	**113**
Congo, Dem. Rep.	2	2	constit	3	Yes	No	2	1.76	0	7	16	**0.4375**	**123**
EGYPT	0	0	constit	3	Yes	No	2	2.94	2	7	16	**0.4375**	**123**
IRAQ	0	0	draft law	1	Yes	Yes	4	4.41	2	7	16	**0.4375**	**123**
MALI	2	2		0	Yes	No	2	6.47	3	7	16	**0.4375**	**123**
GUINEA-BISSAU		0	constit	3	Yes	No	2	2.35	0	5	12	**0.41666**	**127**
HAITI		0		0	Yes	No	2	6.76	3	5	12	**0.41666**	**127**
SEYCHELLES		0	constit	3	Yes	No	2		0	5	12	**0.41666**	**127**
SINGAPORE		0		0	Yes	No	2	7.35	3	5	12	**0.41666**	**127**
SURINAME		0	draft law	1	No	No	0	8.24	4	5	12	**0.41666**	**127**
SWAZILAND		0	draft law	1	Yes	No	2	3.82	2	5	12	**0.41666**	**127**
WEST BANK GAZA		0	draft law	1	Yes	No	2	3.82	2	5	12	**0.41666**	**127**
FIJI	0	0	constit	3	No	No	0	5.88	3	6	16	**0.375**	**134**
TAJIKISTAN	0	0	law	4	Yes	No	2	1.47	0	6	16	**0.375**	**134**
YEMEN	0	0	law	4	Yes	No	2	1.18	0	6	16	**0.375**	**134**
BAHAMAS		0		0	Yes	Yes	4		0	4	12	**0.33333**	**137**
BERMUDA		0	law	4			0		0	4	12	**0.33333**	**137**
BURUNDI		0		0	Yes	No	2	2.94	2	4	12	**0.33333**	**137**
CENT AFRICAN REP		0		0	Yes	Yes	4	2.35	0	4	12	**0.33333**	**137**
COMOROS		0		0	Yes	No	2	3.82	2	4	12	**0.33333**	**137**
CONGO		0		0	Yes	No	2	3.24	2	4	12	**0.33333**	**137**
COOK ISLANDS		0	law	4			0		0	4	12	**0.33333**	**137**
CYPRUS		0		0			0	9.12	4	4	12	**0.33333**	**137**
GABON		0		0	Yes	No	2	4.12	2	4	12	**0.33333**	**137**
GAMBIA		0		0	Yes	No	2	3.24	2	4	12	**0.33333**	**137**
KOSOVO		0	law	4			0		0	4	12	**0.33333**	**137**
LIECHTENSTEIN		0	law	4			0		0	4	12	**0.33333**	**137**
MAURITANIA		0		0	Yes	No	2	5	2	4	12	**0.33333**	**137**
PALAU		0		0	Yes	Yes	4		0	4	12	**0.33333**	**137**
ST. VINCENT+GR'S		0	law	4	No	No	0		0	4	12	**0.33333**	**137**
TOGO		0		0	Yes	No	2	4.12	2	4	12	**0.33333**	**137**
UZBEKISTAN		0	law	4	No	No	0	0.59	0	4	12	**0.33333**	**137**
BENIN	0	0		0	Yes	No	2	5.88	3	5	16	**0.3125**	**154**
CAMBODIA	0	0	draft law	1	Yes	No	2	4.12	2	5	16	**0.3125**	**154**
VIETNAM	0	0	constit	3	Yes	No	2	1.76	0	5	16	**0.3125**	**154**
BAHRAIN		0	draft law	1	Yes	No	2	2.35	0	3	12	**0.25**	**157**
CAYMAN ISLANDS		0	constit	3			0		0	3	12	**0.25**	**157**
CHAD	0	0		0	Yes	No	2	2.65	2	4	16	**0.25**	**157**
DOMINICA		0	draft law	1	Yes	No	2		0	3	12	**0.25**	**157**
ERITREA		0	constit	3	No	No	0	1.18	0	3	12	**0.25**	**157**
IRAN		0	draft law	1	Yes	No	2	1.76	0	3	12	**0.25**	**157**
KUWAIT		0	draft law	1	No	No	0	3.53	2	3	12	**0.25**	**157**
LIBYA		0		0			0	5.59	3	3	12	**0.25**	**157**
SAO TOME & PRIN.	2	2		0	Yes	No	2		0	4	16	**0.25**	**157**
SOLOMON ISLANDS		0	draft law	1	Yes	No	2		0	3	12	**0.25**	**157**
ST. LUCIA		0	draft law	1	Yes	No	2		0	3	12	**0.25**	**157**
SUDAN		0	draft law	1	Yes	No	2	1.47	0	3	12	**0.25**	**157**
VANUATU		0	draft law	1	Yes	No	2		0	3	12	**0.25**	**157**
BELARUS		0		0	Yes	No	2	2.35	0	2	12	**0.16666**	**170**
CUBA		0		0			0	2.94	2	2	12	**0.16666**	**170**
DJIBOUTI		0		0	No	No	0	3.24	2	2	12	**0.16666**	**170**
LAOS		0		0	Yes	No	2	1.18	0	2	12	**0.16666**	**170**
OMAN		0		0	No	No	0	4.12	2	2	12	**0.16666**	**170**
PUERTO RICO		0		0	Yes	No	2		0	2	12	**0.16666**	**170**
UAE		0		0	No	No	0	2.94	2	2	12	**0.16666**	**170**
QATAR	0	0		0	No	No	0	4.12	2	2	16	**0.125**	**177**
BARBADOS		0	draft law	1			0		0	1	12	**0.08333**	**178**
ST. KITTS AND NEVIS		0	draft law	1			0		0	1	12	**0**	**178**
AMERICAN SAMOA		0		0			0		0	0	12	**0**	**180**
ANDORRA		0		0			0		0	0	12	**0**	**180**
ANGUILLA		0		0			0		0	0	12	**0**	**180**
ARUBA		0		0			0		0	0	12	**0**	**180**
BRUNEI DARU'M		0		0	No	No	0		0	0	12	**0**	**180**
EQU'L GUINEA	0	0		0			0	1.47	0	0	16	**0**	**180**
FRENCH GUIANA		0		0			0		0	0	12	**0**	**180**
GREENLAND		0		0			0		0	0	12	**0**	**180**
GRENADA		0		0			0		0	0	12	**0**	**180**
GUAM		0		0			0		0	0	12	**0**	**180**

Country	Budget Transparency	Score	Access to Information	Score	Asset Disclosure (Law)	Asset Disclosure (Public Access)	Score	Citizen Engagement (EIU CL Score)	Score	Total Score	Total Pos	%	Rank
KIRIBATI		0		0	No	No	0		0	0	12	**0**	**180**
KOREA, NORTH		0		0			0	0	0	0	12	**0**	**180**
MARSHALL ISLANDS		0		0			0		0	0	12	**0**	**180**
MARTINIQUE		0		0			0		0	0	12	**0**	**180**
MICRONESIA		0		0	No	No	0		0	0	12	**0**	**180**
MONACO		0		0			0		0	0	12	**0**	**180**
MYANMAR	0	0		0			0	1.76	0	0	16	**0**	**180**
NAURU		0		0			0		0	0	12	**0**	**180**
NETHERLANDS ANT		0		0			0		0	0	12	**0**	**180**
NIUE		0		0			0		0	0	12	**0**	**180**
REUNION		0		0			0		0	0	12	**0**	**180**
SAMOA		0		0	No	No	0		0	0	12	**0**	**180**
SAN MARINO		0		0			0		0	0	12	**0**	**180**
SAUDI ARABIA	0	0		0	No	No	0	1.47	0	0	16	**0**	**180**
SOMALIA		0		0			0		0	0	12	**0**	**180**
SYRIA		0		0	No	No	0	0	0	0	12	**0**	**180**
TONGA		0		0	No	No	0		0	0	12	**0**	**180**
TURKMENISTAN		0		0			0	0.59	0	0	12	**0**	**180**
TUVALU		0		0			0		0	0	12	**0**	**180**
VIRGIN ISLANDS		0		0			0		0	0	12	**0**	**180**

Attachment N: Cost-Effectiveness Analysis Results

Table 31. Cost-Effectiveness Analysis Results – Wide Cost Base Scenario

Results	2002	2005	2008	2013	2002-05	2005-08	2008-13	2002-13	2005-13
Average PEFA Score	D	D+	C+	C+					
Numerical Score Equivalent	1	1.6	2.3	2.5	0.6	0.7	0.2	1.5	0.9
Change between period - PEFA Average p.a					0.2	0.2	0.0	0.1	0.1
ICER: Cost ($m) per 0.5 incr. (PEFA)					**328.7**	**694.1**	**10,497.4**	**1,906.2**	**2,654.8**
Yrs req to incr by 0.5					**2.5**	**2.0**	**13.5**	**3.6**	**4.3**
Avg Cost ($'m) p.a					129.9	342.8	777.6	526.3	614.5
PEFA 10 Average	D	D+	C+	C+					
PEFA 10 Score	1	1.6	2.4	2.4	0.6	0.8	-	1.4	0.8
Change between period - PEFA 10 Average					0.2	0.3	-	0.1	0.1
ICER: Cost ($m) per 0.5 incr. (PEFA-10)					**328.7**	**678.8**	**n/a**	**2,144.1**	**3,245.4**
CPIA - Avge Macro and PFM	**1.68**	**3.5**	**3.3**	**3.5**	**1.8**	**-0.3**	**0.3**	**1.8**	**-**
A.1 Macroeconomic management		4.0	3.5	3.5		-0.5	-		-0.5
D.2 Quality of budgetary and financial management		3.0	3.0	3.5		-	0.5		0.5
C.3 Building human resources		**3.0**	**3.0**	**3.5**		**-**	**0.5**		**0.5**
ICER: Cost ($m) per 0.5 incr. (CPIA A1-Macro and D2-PFM)					**107.0**	**-2,056.6**	**7,775.9**	**1,590.4**	**n/a**
Yrs req to incr by 0.5 (PEFA-10)					2.5	2.0	n/a	4.1	5.3
Cost for Period (excl. $ in PEFA yr)					389.6	1,028.3	3,887.9	5,789.1	4,916.2
No of Years in period					3.0	3.0	5.0	11.0	8.0
No. times higher than World Average ($50m)					6.6	13.6	n/a	42.9	64.9

Source Data: ODA from four OECD DAC CRS sector classifications: 15110: Public sector policy and adm. Management; 15111: Public finance management; 15112: Decentralisation and support to subnational govt; and 15113: Anti-corruption organisations and institutions. Year of PEFA excluded for disbursements. PEFA reports adjusted for overly generous scores discovered in future assessments. CPIA 2002 estimated based on Sudan.

Table 32. Cost-Effectiveness Analysis Results – Narrow Base Scenario

Results	2002	2005	2008	2013	2002-05	2005-08	2008-13	2002-13	2005-13
Average PEFA Score	D	D+	C+	C+					
Numerical Score Equivalent	1	1.6	2.3	2.5	0.6	0.7	0.2	1.5	0.9
Change between period - PEFA Average p.a					0.2	0.2	0.0	0.1	0.1
ICER: Cost ($m) per 0.5 incr. (PEFA)					**35.8**	**136.6**	**939.6**	**195.2**	**297.2**
Yrs req to incr by 0.5					**2.5**	**2.0**	**13.5**	**3.6**	**4.3**
Avg Cost ($'m) p.a					14.1	67.4	69.6	53.9	68.8
PEFA 10 Average	D	D+	C+	C+					
PEFA 10 Score	1	1.6	2.4	2.4	0.6	0.8	-	1.4	0.8
Change between period - PEFA 10 Average					0.2	0.3	-	0.1	0.1
ICER: Cost ($m) per 0.5 incr. (PEFA-10)					**35.8**	**133.6**	**n/a**	**219.5**	**363.3**
CPIA - Avge Macro and PFM	**1.68**	**3.5**	**3.3**	**3.5**	**1.8**	**-0.3**	**0.3**	**1.8**	**-**
A.1 Macroeconomic management		4.0	3.5	3.5		-0.5	-		-0.5
D.2 Quality of budgetary and financial management		3.0	3.0	3.5		-	0.5		0.5
C.3 Building human resources		**3.0**	**3.0**	**3.5**		**-**	**0.5**		**0.5**
ICER: Cost ($m) per 0.5 incr. (CPIA A1-Macro and D2-PFM)					**11.6**	**-404.6**	**696.0**	**162.8**	**n/a**
Yrs req to incr by 0.5 (PEFA-10)					2.5	2.0	n/a	4.1	5.3
Cost for Period (excl. $ in PEFA yr) - PFM only					42.4	202.3	348.0	592.7	550.3
No of Years in period					3.0	3.0	5.0	11.0	8.0
No. times higher than World Average ($50m)					0.7	2.7	n/a	4.4	7.3

Source Data: ODA from four OECD DAC CRS sector classifications: 15111: Public finance management. Year of PEFA excluded for disbursements. PEFA reports adjusted for overly generous scores discovered in future assessments. CPIA 2002 estimated based on Sudan.

Attachment O: Methodology for Quantifying Risk

1. **In order to facilitate risk rating all PEFA scores have been converted to numerical values** in line with common approaches (including in frequent FRAs and PFM system analysis undertaken by DFID, PEFA country and inter-temporal comparison reports by the World Bank, the IMF PEFA index[16] and Delorenzo[xxxiv]). Numerical conversions are as follows: A=4 , B=3, C=2 and D=1, with + scores given an additional 0.5. These are summarized in Table 1 below along with the two different approaches to categorizing risk: i) a five tiered system, which assigns a moderate rating around the central score of C+ (2.5), and; ii) the DFID four tier method. Zero-to-one (0-1) scale equivalents are also provided.

Table 1: Numerical Conversion of PEFA Scores and Risk Categories

PEFA Score	A	B+	B	C+	C	D+	D
Numerical Value# (Avg. Equivalent)*	4 4-3.75	3.5 3.7499-3.25	3 3.2499-2.75	2.5 2.7499-2.25	2 2.2499-1.750	1.5 1.75-1.250	1 1.25-1
0-1 Equivalent (Range Equivalent)	0 0-0.83	0.167 0.830-0.25	0.333 0.250-0.417	0.500 0.4170-0.583	0.667 0.5830-0.750	0.833 0.75-0.9170	1.000 0.917-1

Risk Category 4 Tier Range DFID~	**Low** 4-3.25	**Moderate** 3.2499-2.5	**Substantial** 2.499-1.75	**High** 1.749-1
0-1 Equivalent	0-0.25	0.250-0.5	0.500-.75	0.750-1

*# Commonly used scale including IMF PEFA Index*16 *and De Lorenzo (2009)* xxxiv [17].

** Transition points determined by possible PEFA scores as equal spacing not possible under PEFA alpha + scoring methodology.*

~ Equal spacing (determined by four equal parts of 3 integers =0.75) with transition points determined by exact/unrounded score to achieve lower risk level.

^ Equal spacing (determined by five equal parts of 3 integers =0.6) with transition points determined by exact/unrounded score to achieve lower risk level.

126. **There are recognized problems with averaging PEFA scores.** De Lorenzo (2009)[xxxiv] pointed out that "the PEFA methodology actually measure very different things" and that the "use of averages is based on the assumption that all indicators are equally important". He went on to explain that "this might be problematic for a number of reasons. For some parts of the framework, for example, some indicators may actually be 'more important' than others". This is particularly relevant for fiduciary risk analysis. Simple averaging of numerical PEFA scores does not take into account indicators or dimensions that are more important to fiduciary risk than other.

127. **A different approach based on a standard risk quantification methodology has been taken in other settings**, including Papua New Guinea[xxxv], Iraq[xxxvi & xxxvii], Afghanistan[xxxviii], Turks and Caicos Islands[xxxix], Tokelau[xl], Sri Lanka[xli], Liberia[xlii], UNRWA (including West Bank and Gaza, Syria and Jordan)[xliii] and Timor-Leste[xliv]. The approach used a standard risk **quantification approach of: *performance score***

[16] The IMF PEFA index uses PEFA ratings for the main 28 components and are based on an ordinal scale (A to D) and are converted into numerical values and then aggregated using equal weights. Therefore, PEFA scores (A,B,C,D) are converted into the four ordinal to numerical scores (4,3,2,1) – to assist with graphing results - , with "+" score given ½ point and assign equal weight to each of 28 government PFM indicators. Non Rated (NR) and/or Non Used indicators are not used in the calculation. [xlvii]

[17] If applying standard risk quantification methodology of performance score (PI) x risk factor (importance of PI to fiduciary risk) then numerical progression should be reversed with A=1 and D= 4 if risk factors for example are: Low risk factor=1, moderate risk factor=2 and high risk= 3. This is so that intuitively higher numbers (and higher multiplied numbers) relate to higher risk.

multiplied by risk factor, where risk factors are associated with the system generally - not the country context (see the box below).

Risk Score = Score for System Performance x Risk Factor (Fiduciary or Development)

128. **Under this approach risk factors are assigned for each performance indicator** and dimension based on the assessed importance to fiduciary risk, which was defined essentially as the short-term risk of mismanagement and corruption and poor value for money[18] and applied the following numerical equivalents: High = 3, Moderate = 2 and Low = 1. An important point here is that risk factors for PI dimensions can be different. For example, medium term policy linked budgets are more important for longer term development risk than fiduciary risk so would get a higher development risk factor, while bank reconciliation systems are more important for short term fiduciary risk so would get a higher fiduciary risk factor. The nominal fiduciary risk score range was rebased to a 0-1 range to give more meaningful numerical values to risk levels, but importantly also enables wider use including in cost-effectiveness analysis of aid interventions and reform programs (see use in Multi-Donor Trust Fund decision analysis[xlv]). This approach was not used in this risk assessment of GoPj PFM systems, though the results utilizing the more robust methodology that accounts for importance to fiduciary risk of PEFA scores is to be reported in another follow-up paper. The intial finding is that a higher risk is calculated and higher risk category overall (substantial rather then moderate). Other approaches have also been adopted for rating fiduciary risk including the French Fiduciary Risk Index (FRI), which is simply a reduced PEFA set[19xlvi and xlvii]; the IMF PEFA Index

129. **Other problems with averaging PEFA scores include issues concerning the addition of a plus (+) to Performance Indicators** under the M1-weakest link and M2-averaging methodologies for PEFA themes. For example adding 0.5 for a plus may not be as sensitive to system quality. Under M1-weakest link approach, a four dimension indicator could receive 3 A's and 1 D and therefore secure a D+, or 3 D's and one C and also get a D+. Clearly, the system with 3A's and 1 D would be considered superior to the other, but both get the same score. An approach to this problem would be to assign some variability in the range of M1 scores around 0.5 that would account for relative strengths and weakness. Under the M2-averaging approach, Performance Indicator (PI) dimensions are basically assessed as being equally important to the PI. For M2 fiduciary risk scoring, analysts could use the actual average scores for M2 scores. This is problem is not significant on the basis that PEFA represents expert opinion on system quality so a 0.5 assignment for a plus is not inappropriate. Consequently, for this paper, 0.5 was added for any PEFA PI with a plus.

[18] And development risk being the longer term risk of not meeting development objectives.

[19] The French FRI – FRI calculation is indicative. The FRI is obtained from the scores of 12 selected PEFA indicators, divided in 4 dimensions: D1 - Credibility of the budget: PI2; PI4; PI7; D2 - Effective enforcement procedures and expenditure control: PI18; PI19; PI20; D3 - Reliability of accounting and financial reporting: PI22; PI24; PI25; and D4 - Quality and external audits: PI26; PI27; PI28. Each score for the 12 indicators is converted into digital score via a conversion table. The FRI is obtained by simple average of the ratings of the twelve digital scores. Besides the overall rating, each dimension score is obtained by average ratings of the three digital scores related to this dimension. An overall score is assigned and associated management system of public finances in four risk categories: low (A), moderate (B), high (C) and high (D). Beyond the overall index, four (PI18; PI19; PI20; PI26) out of twelve indicators must have minimum thresholds in order that the fiduciary risk must not be considered as very high. This principle is supposed to limit the effects of compensation between ratings. [xlvii]

Table 2: All Possible PI Scores under PEFA Methodologies#

D	D	D+	D+	D+	D+	C	C+	C+	C+	B	B	B	B+	B+	B+	A	A	A
1.00	1.25	1.33	1.50	1.67	1.75	2.00	2.25	2.33	2.50	2.67	2.75	3.00	3.25	3.33	3.50	3.67	3.75	4.00

#PEFA Methodologies: M1 weakest link (+adds 0.5), and M2-average for 2, 3 and 4 dimensions.

130. **Another problem to overcome with the plus (+) assignment methodology emerges when assigning ranges and transition points for category changes** (e.g. from B+ to A, from low risk to moderate risk). When assigning a PEFA equivalent score to an average of different PIs (like for the 7 PEFA themes or all 31 indicators), numerical scores are unlikely to fit neatly in the range of possible PEFA PI scores for any single PI (see Table 2 and Table 3[20]). Consequently, ranges need to be assigned for alpha-plus scores. It is not possible to use equal spacing to numbers between 1 and 4 and still be consistent with possible alpha-plus PEFA scoring (see Table 2). *The results are that A and D have half (0.25) the numerical range as the rest (0.5)* (see Table 1). The result occurs simply because there is not an A+ and E+ to secure the equal spacing while alpha-plus PEFA scores still represent midpoint scores. For inter-temporal same country comparisons, same year cross country comparisons, and inter-temporal, cross-country comparisons it is important to ensure that the same ranges are followed to ensure the robustness of findings.

131. **Problems also emerge when assigning a risk category rating based on average PEFA scores**. The question is; what are the transition points for moving from one risk category to another – e.g. from moderate to substantial? There are two basic options: i) use an equal spacing rule for a 1-4 numeric scale; or iii) use a non-equal spacing rule (e.g. a 7 tier rule equivalent to PEFA numeric spacings or arbitrary spacings determined by expert opinion). The equal spacing rule was applied for this paper (see Table 1).

Table 3: PEFA conversion table

2 Dimensional Indicators				Sum	Average	Score
D	D	1	1	2	**1**	D
D	C	1	2	3	**1.5**	D+
D	B	1	3	4	**2**	C
D	A	1	4	5	**2.5**	C+
C	C	2	2	4	**2**	C
C	B	2	3	5	**2.5**	C+
C	A	2	4	6	**3**	B
B	B	3	3	6	**3**	B
B	A	3	4	7	**3.5**	B+
A	A	4	4	8	**4**	A

[20] Table 2 shows all the possible PI-plus scores under PEFA while Table 3 shows PEFA conversion tables with numerical equivalents. It should be noted that the use of Table 2 as a lookup table works for assigning pluses for 2, 3 and 4 dimension under M2 PIs in accordance with PEFA conversion tables.

3 Dimensional Indicators						Sum	Average	Score
D	D	D	1	1	1	3	1.00	D
D	D	C	1	1	2	4	1.33	D+
D	D	B	1	1	3	5	1.67	D+
D	D	A	1	1	4	6	2.00	C
D	C	C	1	2	2	5	1.67	D+
D	C	B	1	2	3	6	2.00	C
D	C	A	1	2	4	7	2.33	C+
D	B	B	1	3	3	7	2.33	C+
D	B	A	1	3	4	8	2.67	B
D	A	A	1	4	4	9	3.00	B
C	C	C	2	2	2	6	2.00	C
C	C	B	2	2	3	7	2.33	C+
C	C	A	2	2	4	8	2.67	B
C	B	B	2	3	3	8	2.67	B
C	B	A	2	3	4	9	3.00	B
C	A	A	2	4	4	10	3.33	B+
B	B	B	3	3	3	9	3.00	B
B	B	A	3	3	4	10	3.33	B+
B	A	A	3	4	4	11	3.67	A
A	A	A	4	4	4	12	4.00	A

4 Dimensional Indicators								Sum	Average	Score
D	D	D	D	1	1	1	1	4	1.00	D
D	D	D	C	1	1	1	2	5	1.25	D
D	D	D	B	1	1	1	3	6	1.50	D+
D	D	D	A	1	1	1	4	7	1.75	D+
D	D	C	C	1	1	2	2	6	1.50	D+
D	D	C	B	1	1	2	3	7	1.75	D+
D	D	C	A	1	1	2	4	8	2.00	C
D	D	B	B	1	1	3	3	8	2.00	C
D	D	B	A	1	1	3	4	9	2.25	C+
D	D	A	A	1	1	4	4	10	2.50	C+
D	C	C	C	1	2	2	2	7	1.75	D+
D	C	C	B	1	2	2	3	8	2.00	C
D	C	C	A	1	2	2	4	9	2.25	C+
D	C	B	B	1	2	3	3	9	2.25	C+
D	C	B	A	1	2	3	4	10	2.50	C+
D	C	A	A	1	2	4	4	11	2.75	B
D	B	B	B	1	3	3	3	10	2.50	C+
D	B	B	A	1	3	3	4	11	2.75	B
D	B	A	A	1	3	4	4	12	3.00	B
D	A	A	A	1	4	4	4	13	3.25	B+
C	C	C	C	2	2	2	2	8	2.00	C
C	C	C	B	2	2	2	3	9	2.25	C+
C	C	C	A	2	2	2	4	10	2.50	C+
C	C	B	B	2	2	3	3	10	2.50	C+
C	C	B	A	2	2	3	4	11	2.75	B
C	C	A	A	2	2	4	4	12	3.00	B
C	B	B	B	2	3	3	3	11	2.75	B
C	B	B	A	2	3	3	4	12	3.00	B
C	B	A	A	2	3	4	4	13	3.25	B+
C	A	A	A	2	4	4	4	14	3.50	B+
B	B	B	B	3	3	3	3	12	3.00	B
B	B	B	A	3	3	3	4	13	3.25	B+
B	B	A	A	3	3	4	4	14	3.50	B+
B	A	A	A	3	4	4	4	15	3.75	A
A	A	A	A	4	4	4	4	16	4.00	A

Table 33. Fiduciary and Development Risk Factors

NB: Yellow shaded cells highlight where a development risk factor is different to the fiduciary risk factor.

#	Indicator	FR Factor	DR Factor
	A. PFM-OUT-TURNS: Credibility of the budget		
PI-1	**Aggregate [sector] expenditure out-turn compared to original approved budget**	**M**	**H**
	(i) The difference between actual primary [sector] expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	M	H
PI-2	**Composition of [sector] expenditure out-turn compared to original approved budget**	**M**	**H**
	(i) Extent to which variance in primary [sector] expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years.	M	H
PI-3	**Aggregate [sector specific non-tax] revenue out-turn compared to original approved budget**	**M**	**M**
	(i) Actual domestic [sector specific non-tax] revenue collection compared to domestic revenue estimates in the original, approved budget.	M	M
PI-4	**Stock and monitoring of [sector] expenditure payment arrears**	**H**	**H**
	(i) Stock of expenditure payment arrears [in the sector] (as a % of actual total expenditure for the corresponding fiscal year) & any recent change in the stock.	H	H
	(ii) Availability of data for monitoring the stock of expenditure payment arrears [in the sector]	H	H
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	**Classification of the budget [in the sector]**	**L**	**H**
	(i) The classification system used for formulation, execution and reporting of the central {SN} government's budget [for the sector].	L	H
PI-6	**Comprehensiveness of information included in budget documentation**	**L**	**H**
	(i) Share of the listed information in the budget documentation most recently issued by the central {SN} government	L	H
PI-7	**Extent of unreported government operations [in the sector]**	**H**	**H**
	(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in [sector] fiscal reports.	H	H
	(ii) Income /expenditure information on donor-funded projects which is included in [sector] fiscal reports.	H	H
PI-8	**Transparency of inter-governmental fiscal relations [within the sector]**	**H**	**H**
	(i) Transparent and rules based systems in the horizontal [sub-sector] allocation among SN governments [institutions] of unconditional and conditional transfers from central {higher level SN} government (both budgeted and actual allocations);	H	H
	(ii) Timeliness of reliable information to {lower level} SN governments [sector institutions] on their allocations from central government for the coming year;	H	H
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral [sub-sectoral] categories. {Extent to which financial information (at least on revenue and expenditure) is collected and reported by SN government according to sectoral categories.}	H	H
PI-9	**Oversight of aggregate fiscal risk from other public sector entities**	**H**	**H**
	(i) Extent of central {SN} government monitoring of AGAs and PEs.	H	H
	(ii) Extent of central {SN} government monitoring of [lower level} SN government's fiscal position	H	H
PI-10	**Public access to key [sector specific] fiscal information**	**H**	**H**
	(i) Number of the listed elements of public access to information that is fulfilled	H	H
	C. BUDGET CYCLE		
	C (i) Policy based Budgeting		
PI-11	**Orderliness and participation in the annual budget process [within the sector]**	**M**	**H**
	(i) Existence of and adherence to a fixed budget calendar [consistency of the sector's calendar with that of the Ministry of Finance];	M	H
	(ii) Clarity/ comprehensiveness of and political involvement [involvement of sub-sector units] in the guidance on the preparation of budget submissions (budget circular or equivalent);	M	H
	(iii) Timely budget approval by the [sector committee in the] legislature or similarly mandated body (within the last three years);	M	H
PI-12	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**M**	**H**
	(i) Preparation of multi -year fiscal forecasts and functional [sub-functional] allocations	M	H
	(ii) Scope and frequency of debt sustainability analysis	H	H
	(iii) Existence of [detailed] sector strategies with multi-year costing of recurrent and investment expenditure [for sub-sector units and programs];	M	H
	(iv) Linkages between [sector] investment budgets and forward expenditure estimates.	M	H
	C (ii) Predictability and Control in Budget Execution		
PI-13	**Transparency of taxpayer obligations and liabilities**	**H**	**H**
	(i) Clarity and comprehensiveness of tax liabilities	H	H

#	Indicator	FR Factor	DR Factor
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	H	H
	(iii) Existence and functioning of a tax appeals mechanism.	H	H
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**M**	**M**
	(i) Controls in the taxpayer registration system.	M	M
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	M	M
	(iii) Planning and monitoring of tax audit and fraud investigation programs.	H	M
PI-15	**Effectiveness in collection of tax payments**	**H**	**H**
	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	H	M
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	H	M
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	H	M
PI-16	**Predictability in the availability of funds for commitment of expenditures [in the sector]**	**H**	**H**
	(i) Extent to which [sector] cash flows are forecast and monitored	H	H
	(ii) Reliability and horizon of periodic in-year information to MDAs [in the sector] on ceilings for expenditure commitment	H	H
	(iii) Frequency and transparency of adjustments to [sector] budget allocations, which are decided above the level of management of [sub-sector] MDAs	H	H
PI-17	**Recording and management of cash balances, debt and guarantees [in the sector]**	**H**	**H**
	(i) Quality of debt data recording and reporting [in the sector]	H	H
	(ii) Extent of consolidation of the government's [sector] cash balances	H	H
	(iii) Systems for contracting loans and issuance of guarantees [in the sector].	H	H
PI-18	**Effectiveness of [sector] payroll controls**	**H**	**H**
	(i) Degree of integration and reconciliation between personnel records and payroll data [in the sector].	H	H
	(ii) Timeliness of changes to personnel records and the payroll [in the sector]	H	H
	(iii) Internal controls of changes to personnel records and the payroll [in the sector]	H	H
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers [in the sector]	H	H
PI-19	**Competition, value for money and controls in procurement [in the sector]**	**H**	**H**
	(i) Evidence on the use of open competition for award of contracts [in the sector]	H	H
	(ii) Extent of justification for use of less competitive procurement methods [in the sector]	H	H
	(iii) Existence and operation of a procurement complaints mechanism	H	H
PI-20	**Effectiveness of internal controls for non-salary expenditure [within the sector]**	**H**	**H**
	(i) Effectiveness of expenditure commitment controls [within the sector]	H	H
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures [within the sector]	H	H
	(iii) Degree of compliance with rules for processing and recording transactions [within the sector]	H	H
PI-21	**Effectiveness of internal audit [within the sector]**	**H**	**M**
	(i) Coverage and quality of the internal audit function [within the sector]	H	M
	(ii) Frequency and distribution of reports [within the sector]	H	M
	(iii) Extent of management response to internal audit findings [within the sector]	H	H
	C (iii) Accounting, Recording and Reporting		
PI-22	**Timeliness and regularity of accounts reconciliation [within the sector]**	**H**	**H**
	(i) Regularity of bank reconciliations [within the sector]	H	H
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances [within the sector]	H	H
PI-23	**Availability [Collection and processing] of information on resources received by service delivery units [in the sector]**	**H**	**H**
	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	H	H
PI-24	**Quality and timeliness of in-year [sector] budget reports**	**L**	**L**
	(i) Scope of [sector] reports in terms of coverage and compatibility with budget estimates	L	L
	(ii) Timeliness of the issue of [sector] reports	L	L
	(iii) Quality of [sectoral] information	L	L
PI-25	**Quality and timeliness of annual [sector] financial statements**	**M**	**M**
	(i) Completeness of the [sector] financial statements	M	M
	(ii) Timeliness of submission of the [sector] financial statements	M	M
	(iii) Accounting standards used [in the sector]	M	M

#	Indicator	FR Factor	DR Factor
	C (iv) External Scrutiny and Audit		
PI-26	**Scope, nature and follow-up of external audit**	**M**	**H**
	(i) Scope/nature of audit performed (incl. adherence to auditing standards) [in the sector]	M	H
	(ii) Timeliness of submission of [sector] audit reports to legislature.	M	M
	(iii) Evidence of follow up on [sector] audit recommendations.	H	H
PI-27	**Legislative scrutiny of the annual budget law [by sector committees where applicable]**	**L**	**M**
	(i) Scope of the legislature's scrutiny [of the sector}	L	L
	(ii) Extent to which the legislature's [sectoral committee] procedures are well-established and respected	L	M
	(iii) Adequacy of time for the legislature to provide a response to [sector] budget proposals	L	M
	(iv) Rules for in-year amendments to the [sector] budget without ex-ante approval by the legislature	L	L
PI-28	**Legislative scrutiny of external audit reports [relating to the sector]**	**M**	**H**
	(i) Timeliness of examination of [sector] audit reports by the legislature (for reports received within the last three years).	M	H
	(ii) Extent of hearings on key findings [relating to the sector] undertaken by the legislature.	M	H
	(iii) Issuance of recommended actions by the legislature and implementation by the [sector] executive.	M	H
	D. DONOR PRACTICES		
D-1	**Predictability of Direct [sector] Budget Support**	**M**	**H**
	(i) Annual deviation of actual [sector] budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	M	H
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) [for the sector]	M	H
D-2	**Financial information [for the sector] provided by donors for budgeting and reporting on project and program aid**	**M**	**H**
	(i) Completeness and timeliness of budget estimates [for the sector] by donors for project support.	M	H
	(ii) Frequency and coverage of reporting [for the sector] by donors on actual donor flows for project support.	M	H
D-3	**Proportion of aid that is managed by use of national procedures**	**M**	**H**
	(i) Overall proportion of aid funds to central government that are managed through national procedures (procurement, payment/ accounting, audit and reporting)	M	H
	ADDITIONAL -Non-PEFA INDICATORS		
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI- x	**Transparency of administrative arrangements to support gender perspectives**	**L**	**M**
	(i) Extent to which gender-aware budget policy appraisal is undertaken (gender disaggregated policy and public expenditure incidence analysis, gender aware budget call circulars, gender-aware budget statement) [in the sector]	L	M
	(ii) Access to gender-sensitive fiscal information [in the sector].	L	M
	(iii) Existence of functioning gender-aware PFM system administrative arrangements (collection and reporting through: establishment, HR and payroll systems, parliamentary representation and senior official decision maker representation reporting and consolidated gender budget reporting) [in the sector].	L	M
	C (i) Policy based Budgeting		
PI-12B	**Multi-year perspective in [sector] fiscal planning, expenditure policy and budgeting**	**H**	**H**
	(v) Scope and frequency of fiscal sustainability analysis	H	H
	(vi) Extent to which costed sector strategies match sector expenditure ceilings from the central government	L	H
	C(ii) Predictability and Control in Budget Execution		
HLG-1	**Predictability of Transfers from Higher Level of Government**	**M**	**H**
	(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	M	H
	(ii) Annual variance between actual and estimated transfers of earmarked grants.	M	M
	(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)	H	H
PI - y	**Transparency and effectiveness of administrative arrangements for non-tax revenue**	**H**	**H**
	(i) Clarity and comprehensiveness of administration of [sector specific] non-tax revenue [including clarity of specific services for which a fee may be charged]	H	H
	ii) Effectiveness of measures for natural resource import and export industry registration and licensing	H	H
	iii) Effectiveness in collection of non-tax revenue collection (in the sector)	H	H
	(iv) [User] Access to information on non-tax revenue [raised in the sector]	H	H

#	Indicator	FR Factor	DR Factor
	(v) Extent to which authorised fees are not charged	H	H
	(vi) Extent to which unauthorised fees are charged	H	H
PI-19B	**Competition, value for money and controls in procurement [in the sector]**	**H**	**H**
	(iv) [Extent of active management (revisions and cancellations etc) of contracts based on contractors' performance to ensure continuing value for money]	H	H
PI-19C	**Controls in procurement [in the sector]**	**H**	**H**
	(i) Existence of independent bodies [in the sector] (such as regulatory institutions like Tender Boards [or sector level audit departments]) and extent of their oversight	H	H
	(ii) Extent of procedures in place [in the sector] to monitor compliance and independence in carrying out procurement	H	H
	(iii) Extent of procedures in place to identify and address potential conflicts of interest in awarding contracts and carrying out procurement.	H	H
PI-19D	**Controls in procured goods [in the sector]**	**H**	**H**
	(i) Extent of quality inspection and audit at receipt of goods and services procured	H	H
	(ii) Extent of adequate storage system and prevention of stock out and theft	H	H
	Other		
PI-19AC	**Effectiveness of Anti-Corruption Measures**	**H**	**H**
	(i) Effectiveness and enforcement of administrative and criminal sanctions (including discipline and referral procedures)	H	H
	(ii) The number of the listed elements of anti-corruption measures fulfilled: a) signed and ratified the UN Convention Against Corruption; b) an anti-corruption strategy; c) strategic objectives are clear and being implemented; and d) a clear self-assessment	H	H
	(iii) The number of the listed elements for prevention and enforcement fulfilled: a) public sector ethics and asset declarations; b) access to information and whistle-blower protection; c) public education; and d) private sector standards including accounting and auditing standards.	H	H
PI-BS	**Compliance with Basel Core Principles**	**H**	**H**
	(i) Compliance with preconditions for effective banking supervision	H	H
	(ii) Compliance with licensing and structure, prudential regulations and requirements and methods of ongoing banking supervision	H	H
	(iii) Compliance with information requirements, formal powers of supervisors and cross-border banking	H	H
PI-SC	**Capacity for Social and Economic Statistics**	**L**	**H**
	(i) Compliance with methodology	L	H
	(ii) Adequacy of source data	L	H
	(iii) Periodicity and timeliness of statistics	L	H

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