



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
FISCAL PERFORMANCE IMPROVEMENT SUPPORT PROJECT (FSP):
APPROVED ON DECEMBER 19, 2017
TO
ISLAMIC REPUBLIC OF AFGHANISTAN

GOVERNANCE

SOUTH ASIA

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ABBREVIATIONS AND ACRONYMS

AEITI	<i>Afghanistan Extractive Industries Transparency Initiative</i>
AFMIS	<i>Afghanistan Financial Management Information System</i>
AGASP	<i>Afghanistan Gas Project</i>
AMIS	<i>Audit Management Information System</i>
APMIS	<i>Afghanistan Performance Management Information System</i>
ARTF	<i>Afghanistan Reconstruction Trust Fund</i>
ASYCUDA	<i>Automated System for Customs Data</i>
FPIP	<i>Fiscal Performance Improvement Plan</i>
FSP	<i>Fiscal Performance Improvement Support Project</i>
IAD	<i>Internal Audit Directorate</i>
IIA	<i>Institute of Internal Auditors</i>
IRI	<i>Intermediate Result Indicator</i>
M&E	<i>Monitoring and Evaluation</i>
MoF	<i>Ministry of Finance</i>
MTR	<i>Mid-Term Review</i>
NPA	<i>National Procurement Authority</i>
PDO	<i>Project Development Objective</i>
PMT	<i>Performance Management Team</i>
SAO	<i>Supreme Audit Office</i>
SOE	<i>State Owned Enterprise</i>



BASIC DATA

Product Information

Project ID P159655	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 19-Dec-2017	Current Closing Date 28-Dec-2022

Organizations

Borrower Islamic Republic of Afghanistan	Responsible Agency Ministry of Finance,National Procurement Authority,Supreme Audit Office
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Project Development Objective (PDO)

Original PDO

To contribute to the improvement of domestic revenue mobilization and public expenditures management, and of reinforcing a performance oriented management culture in the Ministry of Finance.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-D2630	19-Dec-2017	25-Dec-2017	01-Jan-2018	28-Dec-2022	25.00	24.94	0
TF-A6277	19-Dec-2017	25-Dec-2017	01-Jan-2018	28-Dec-2022	35.00	9.75	25.25

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. *The mid-term review (MTR) mission for Fiscal Performance Improvement Support Project (FSP-P159655) conducted during June 16 – July 11, 2020, confirmed that the project implementation is back on track with moderately satisfactory ratings for both overall implementation progress and progress towards achievement of project development objective (PDO).*
2. *Earlier concerns, which were largely related to the implementation capacity and the observed fiduciary issues, have been effectively addressed by all project entities. The project is likely to achieve the PDO, and already demonstrated significant progress on several reforms. Inter alia, MoF continues to advance important reforms to budget processes while also undertaking efforts to rationalize security expenditures. Domestic resource mobilization has been enabled by increases in the number of active tax filers and roll-out of Automated System for Customs Data (ASYCUDA) to most customs offices. The Supreme Audit Office (SAO) has been progressing in the procurement of the Audit Management Information System (AMIS), introduction of guidelines and toolkits for several types of audit (financial, compliance, and performance), and strengthening the legislative basis for external audit. The National Procurement Authority (NPA) has made significant progress in development of Electronic Government Procurement System, including the completion of the main E-Tendering module. Meanwhile, Fiscal Performance Improvement Plan (FPIP) has been expanded to 140 teams across MoF, SAO and the NPA all of whom have adopted the Afghanistan Performance Management Information System (APMIS) developed by the Ministry of Finance (MoF) Performance Management Team (PMT).*

B. Rationale for Restructuring

3. *This restructuring is part of the omnibus portfolio cancellation and restructuring requests, communicated through MoF letters respectively dated June 24, 2020 and July 2, 2020, and reallocating US\$40 million from FSP's Afghanistan Reconstruction Trust Fund (ARTF) grant for the COVID-19 crisis response. The intention is to update the project's results framework in line with the reduced financing. This entails finetuning intermediate result indicators (IRI) and its targets.*
4. *Despite the downsized scope of project components and activities FSP will be able to achieve its PDO. The PDO will not be affected as the reduction in financing mainly affected the allocations for incremental operating cost, which moving forward will be absorbed by parallel financing from the government. The updated procurement plans have been agreed with respective project stakeholders. No changes are made in the key reform targets of the project components and risk ratings. It is possible to maintain the main focus of the project components through reprioritization of investments and relatively larger reductions in the incremental operating costs, which took the main hit of the budget cut.*

II. DESCRIPTION OF PROPOSED CHANGES



C. Changes in Results Framework

5. *PDO indicators and targets remain unchanged. The baseline value for the long-term technical assistants is corrected, as the number was erroneously set at 499 instead of 780.*
6. *Selected intermediate result indicators were revised to align the results framework with the reduced funding amounts and thus re-prioritize activities due to the reduced scope. The changes to indicators are listed below:*
 - (a) *The indicator for "Improved gender disaggregated statistical analysis and documentation" is revised to better reflect the actual focus on gender budget statements,*
 - (b) *The indicator for "Effective M&E of development projects through development of a proper M&E system" is dropped due to the transfer of this function to the Ministry of Economy, which is beyond the project coverage and influence,*
 - (c) *The indicator for "Web based AFMIS extended to embassies and selected districts, municipalities, and SOEs" is replaced with an alternative measure for planning the transition to a new management information platform in-line with the recent MoF decision,*
 - (d) *The indicator for "Number of IADs in Line Ministries that are strengthened, and functioning based on standards set out by IIA" is dropped due to discontinuation of FSP financing for internal audit reform,*
 - (e) *The indicator for "Simplification and standardization of MoF Administration business processes" is revised to focus on the revised scope of the project support.*
7. *The new formulations for the revised indicators are reflected in the attached updated results framework.*

D. Changes in Components and Cost

8. **Component 1: Budget as Tool for Development.** *The allocation for this component is reduced from original US\$10 million to US\$3.31 million without changes in the composition of the subcomponents.*
9. **Component 2: Revenue Mobilization.** *The allocation for this component is reduced from original US\$40 million to US\$20.16 million. No further activities for Afghanistan Extractive Industries Transparency Initiative (AEITI) will be financed under this component, as all new activities have been transferred to the Afghanistan Gas Project (AGASP), which became effective from January 2020.*
10. **Component 3: Treasury Management, Accountability, and Transparency.** *The allocation for this component is reduced from original US\$30 million to US\$24.82 million. Instead of investing in further roll-out of the current vendor locked Afghanistan Financial Management Information System (AFMIS), the limited FSP resources will be used for planning and facilitating the migration to a new preferably open source platform. Investments in internal audit reform activities will be discontinued, limiting the further financing to only national technical assistants till the end of 2020.*
11. **Component 4: Institutional Capacity Building and Performance Management.** *The allocation for this component is reduced from original US\$20 million to US\$11.71 million. The FSP will not directly support business process re-engineering across the MoF's corporate backbone, instead exclusively focusing on business process re-engineering and automation of asset management.*

E. Changes in Disbursement Estimates

12. *The estimates are updated to project the disbursement of grant proceeds, remaining after actual disbursements during years 2018-2019 and following the recent partial cancellation, over the period 2020-2022.*



F. Changes in Financial Management

13. The period for submission of the annual audited financial statements has been increased from six (6) to nine (9) months after the end of the project's fiscal year.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Disbursement Estimates	✓	
Financial Management	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓



IV. DETAILED CHANGE(S)

COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Component 1: Budget as Tool for Development	10.00	Revised	Component 1: Budget as Tool for Development	3.31
Component 2: Revenue Mobilization	40.00	Revised	Component 2: Revenue Mobilization	20.16
Component 3: Treasury Management, Accountability, and Transparency	30.00	Revised	Component 3: Treasury Management, Accountability, and Transparency	24.82
Component 4: Institutional Capacity Building and Performance Management	20.00	Revised	Component 4: Institutional Capacity Building and Performance Management	11.71
TOTAL	100.00			60.00

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2018	11,930,625.00	17,467,982.90
2019	24,995,125.00	15,249,115.30
2020	26,141,625.00	9,500,000.00
2021	15,090,975.00	9,500,000.00
2022	21,841,650.00	8,282,901.80
2023	0.00	0.00



Results framework

COUNTRY: Afghanistan

Fiscal Performance Improvement Support Project (FSP):

Project Development Objectives(s)

To contribute to the improvement of domestic revenue mobilization and public expenditures management, and of reinforcing a performance oriented management culture in the Ministry of Finance.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
To contribute to the improvement of public expenditures management.								
Increased development budget execution rate (Percentage)		54.00	57.00	62.00	66.00	70.00	75.00	75.00
Effective implementation by budgetary units on the external audit recommendations (Percentage)		15.00	20.00	30.00	40.00	50.00	60.00	60.00
To contribute to the improvement of domestic revenue mobilization.								
Increased domestic revenue as a percentage of GDP (Percentage)		10.70	10.90	11.20	11.60	12.00	12.20	12.20
To contribute to reinforcing a performance oriented management culture in the Ministry of Finance.								
Improvement in core institutional capacity, represented by a reduction in the number of long-term		780.00	450.00	400.00	350.00	300.00	250.00	250.00



Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
technical assistants (Number)								
<i>Action: This indicator has been Revised</i>								

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Component 1: Budget as Tool for Development								
Increased budget execution rate of the provinces by implementing new provincial budgeting policy. (Percentage)		57.00	60.00	65.00	69.00	72.00	75.00	75.00
Gender budget statements developed for key ministries (Text)		5 ministries	5 ministries	5 ministries	12 ministries	12 ministries	12 ministries	12 ministries
<i>Action: This indicator has been Revised</i>								
Large projects are properly appraised with the support of a new PIM Unit to be established (Percentage)		10.00	15.00	20.00	30.00	40.00	50.00	50.00
Effective M&E of development projects		0.00	20.00	40.00	60.00	80.00	100.00	100.00



Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
through development of a proper M&E system (Percentage)								
Action: This indicator has been Marked for Deletion								
Component 2: Revenue Mobilization								
Implement ARD Re-Organization and Modernization Plan (Text)		Plan approved by cabinet	Readiness Phase Completed: All preparatory steps to implement ARD Re-organization and Modernization plan carried out	Phase 1 Completed: Leadership Cadre and Corporate Support Services established	Phase 2 Completed: Kabul and two other regional revenue offices report to ARD	Phase 3 Completed: Kabul and four other regional revenue offices report to ARD	Phase 4 Completed: All regional revenue offices report to ARD	All regional revenue offices report to ARD
Increased number of active tax filers (Text)		LTO: 195; MTO: 5325; STO: 3137	LTO: 232; MTO: 6340; STO: 3850	LTO: 269; MTO: 7355; STO: 4450	LTO: 306; MTO: 8400; STO: 5150	LTO: 343; MTO: 9400; STO: 5850	LTO: 380; MTO: 10400; STO: 6713	LTO: 380; MTO: 10400; STO: 6713
Staff and business processes are in place for VAT implementation in 2020 (Text)		No staff or processes in place	VAT Work Plan established, including staffing plan	VAT staff recruited and trained	Preparatory work to develop business processes and implementation finalized	Business processes developed and implementation plan ready	VAT business processes developed and staff trained	VAT business processes developed and staff trained
Percentage increase in custom duties through enhancement of ASYCUDA customs automation (Percentage)		5.00	10.00	30.00	60.00	80.00	100.00	100.00
Component 3: Treasury Management, Accountability, and Transparency								



Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Approved time-bound development and migration plan to a new AFMIS platform (Yes/No)	No	No	No	No	No	Yes	Yes	Yes
Action: This indicator has been Revised								
Afghanistan Institute of Certified Public Accountants (CPA) established and two batches trained (Text)	Institute not established	CPA law drafted and curriculum outline developed	CPA law enacted and curriculum developed	Training completed for first batch (including at least 5 females), and reciprocal membership agreement signed with two international/regional accountancy bodies	Training initiated for second batch (including at least 10 females)	Institute established, CPA law enacted, and curriculum developed	Institute established, CPA law enacted, and curriculum developed	
Number of IADs in Line Ministries that are strengthened and functioning based on standards set out by IIA (Number)	0.00	5.00	10.00	15.00	20.00	26.00	26.00	26.00
Action: This indicator has been Marked for Deletion								
Rolling out e-GP in the pilot phase in 3 or more departments (Number)	0.00	0.00	1.00	2.00	2.00	3.00	3.00	3.00
Component 4: Institutional Capacity Building and Performance Management								



Indicator Name	PBC	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Establishment of Asset Inventory Management System (Yes/No)		No	No	No	No	No	Yes	Yes
Action: This indicator has been Revised								
Improvement in performance management coverage, represented by an increase in the number of teams adopting FPIP (Number)		90.00	100.00	110.00	120.00	130.00	140.00	140.00
Transparency and citizen engagement in reform planning, represented by timely publication of annual and mid-year FPIP assessment reports (Yes/No)		No	Yes	Yes	Yes	Yes	Yes	Yes