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# **The Performance Assessment Matrix:**

## **Monitoring Core Budget Effectiveness**

**ARTF Quarterly Meeting  
March 25, 2008**

# The PAM & the results agenda

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- PAM monitors the core budget in terms of
    - effectiveness of public resource management
    - delivery of basic services
    - public administration reform
    - aid effectiveness
  - The PAM is still at an early stage:
    - Oct 31, 07
    - Mar 25, 08 } 1386
  - As the PAM develops, value will increase as a means of tracking performance
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# Today's PAM Agenda

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- The management of public finances
  - Reforms to public administration
  - Core public services
    - Health & education
  - Aid effectiveness
    - ARTF preferences
    - PEFA – also a critical part of PFM
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# Management of Public Finances (i)

- Revenues
  - Q3 actual revenues below target by 6%
- Development budget execution
  - USD865m (SY85 USD712m)
  - 50% of budget (target=55%)

Indicators	SY1384 (actual)	SY1385 (actual)	SY1386 (Oct estimates)	<b>SY1386 (Mar estimates)</b>	SY1387 (Proj. target)
Revenue to GDP Ratio	6.1%	7.8%	8.2%	<b>8.2%</b>	9.3%
Revenue to operating expenditure ratio	65%	67%	67%	<b>65%</b>	67.9%
Budget execution ratio (core dev.)	44%	54%	Above 50%	<b>55%</b>	Increase on previous yr
% staff with ISP*	10%	23%	45%	<b>30%</b>	55%

\* Individual Salary Payment

# Management of Public Finances (ii)

- ARTF eligibility
  - ARTF salary component eligibility has been steadily increasing
  - ARTF non-salary eligibility is expected to increase after a slump in SY1385
- % of non-salary spent in provinces
  - Quarters 1-3 show a spending in provinces of 14% (Q4 should bring this up to around 25%)
- ANDS Sector Strategy Costing
  - 3 ANDS sectors are now costed; all sectors to be costed in SY1387

Indicators	SY1384 (actual)	SY1385 (actual)	SY1386	SY1386	SY1387
			(Oct estimates)	(Mar estimates)	Est.
ARTF eligibility ratio (salary)	84.40%	92.50%	increase over previous year	94%	Maintain/ Improve
ARTF eligibility ratio (non-salary)	73.3%	64.6%	increase over previous year	75%	Maintain/ Improve
% of non-salary operating budget spent in provinces	25%	25%	increase over previous year	14% (Q1-Q3 Act.)	Increase over previous year
No. of Costed ANDS sectors	-	-	3	3	all

# Reforms to public institutions

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- PRR stage II continuing to be implemented
    - 34 agencies now passed through PRR II against 28 target for 1386
  - Appointments board capacity & P&G policy are two key challenges:
    - Merit-based appointments=16,265 (target 30,000)
    - Civil Servants Law now drafted
  - Capacity issues remain but efforts are being made to address them:
    - Appointments Board capacity plan in place
    - AEP/LEP fully committed and MCP kicks off in 1387
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# Core public services - education

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- Access to education is on target:
    - Gross enrollment = 107% (target 80%)
    - Female teachers = 29% of total
    - 75% of schools have established SMCs
  
  - *Quality* improvements making some progress:
    - 37,000 teachers now received in-service training
    - 1/3<sup>rd</sup> of teachers now registered
    - HRMIS under preparation
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# Core public services - health

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- 2006 household survey:
    - 1385 saw big increases in coverage of services
  - Third-party monitoring (Johns Hopkins):
    - National quality of care improving in line with target (5% increase y-on-y)
    - Separate 'score card' now in place for monitoring quality of hospitals
  - Impact: latest household survey found under-5 mortality rate of 191: 26% reduction from 2002 estimates
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# Aid effectiveness

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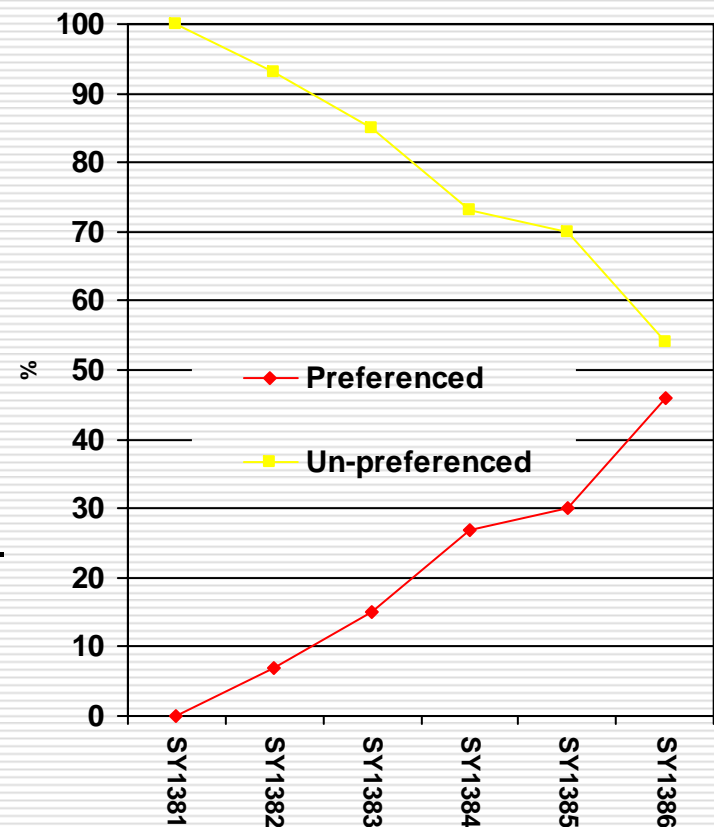
- ❑ ARTF funding has increased in predictability. 91% of pledges paid in in Feb 08.
- ❑ Increasing share of recurrent window needs covered earlier in the financial year - allows for greater cash flexibility
- ❑ However, preferences and discretionary funds are increasing as a share of the total contributed

Indicators	SY1384 (actual)	SY1385 (actual)	SY1386 (Oct estimates)	SY1386 (Mar estimates)
% of recurrent committed at start of year	25%	60%	70%	70%
% of pledge un-preferenced	73%	70%	60%	54%
Discretionary resources as % of total core dev budget	42%	29%	32%	16%

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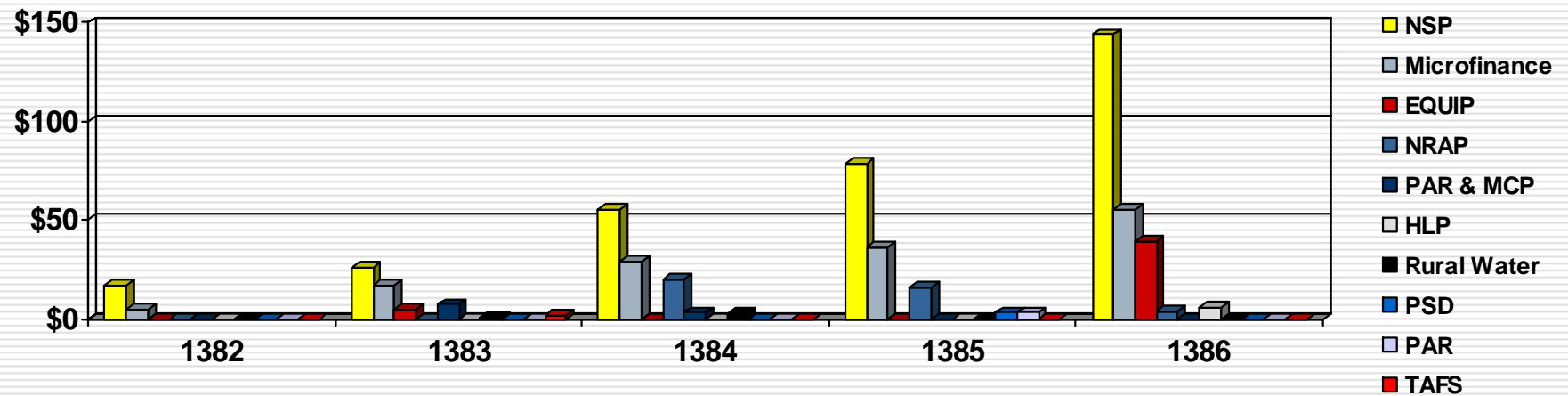
# Preferences (i)

- Share of unpreferred ARTF pledges decreased from 73% in SY1384 to 54% in SY1386.
  - success of core rural development investments
  - Relaxation of 50% rule once recurrent needs are met
- Preferences are additional – i.e. unpreferred funds are also increasing
- PAM targets a decline in share of preferred funds



# Preferences (ii)

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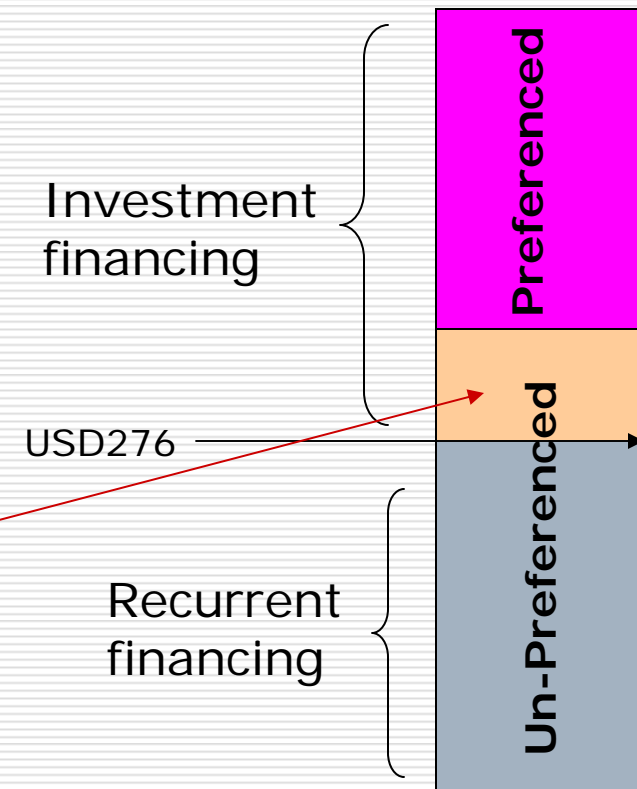


- ❑ Preferences have been the major source of financing for NSP & MISFA scale-up
  - ❑ Now increasing in other areas: MCP, EQUIP
  - ❑ Preferences provide program-specific visibility for donors while also filling funding gaps in the government's budget
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# Preferences (iii)

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- Recent change in context:
  - growing contributions and static recurrent window financing
  - increasing window of discretion for investment window
- Implies a greater need for dialogue on ARTF development window priorities



# 2008 PEFA – background & process

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- ❑ PEFA is especially important for Afghanistan, as the budget is intended to be a central policy tool
- ❑ Second PEFA for Afghanistan, information based on December 2007
- ❑ PEFA is one of the PAM indicators
- ❑ This PEFA was jointly conducted by WB, DFID and IMF (peer reviewer) in Jan-Feb 2008 together with MOF counterparts
- ❑ PEFA consists of 28 PFM system indicators and 3 donor practice indicators

# Some Caveats

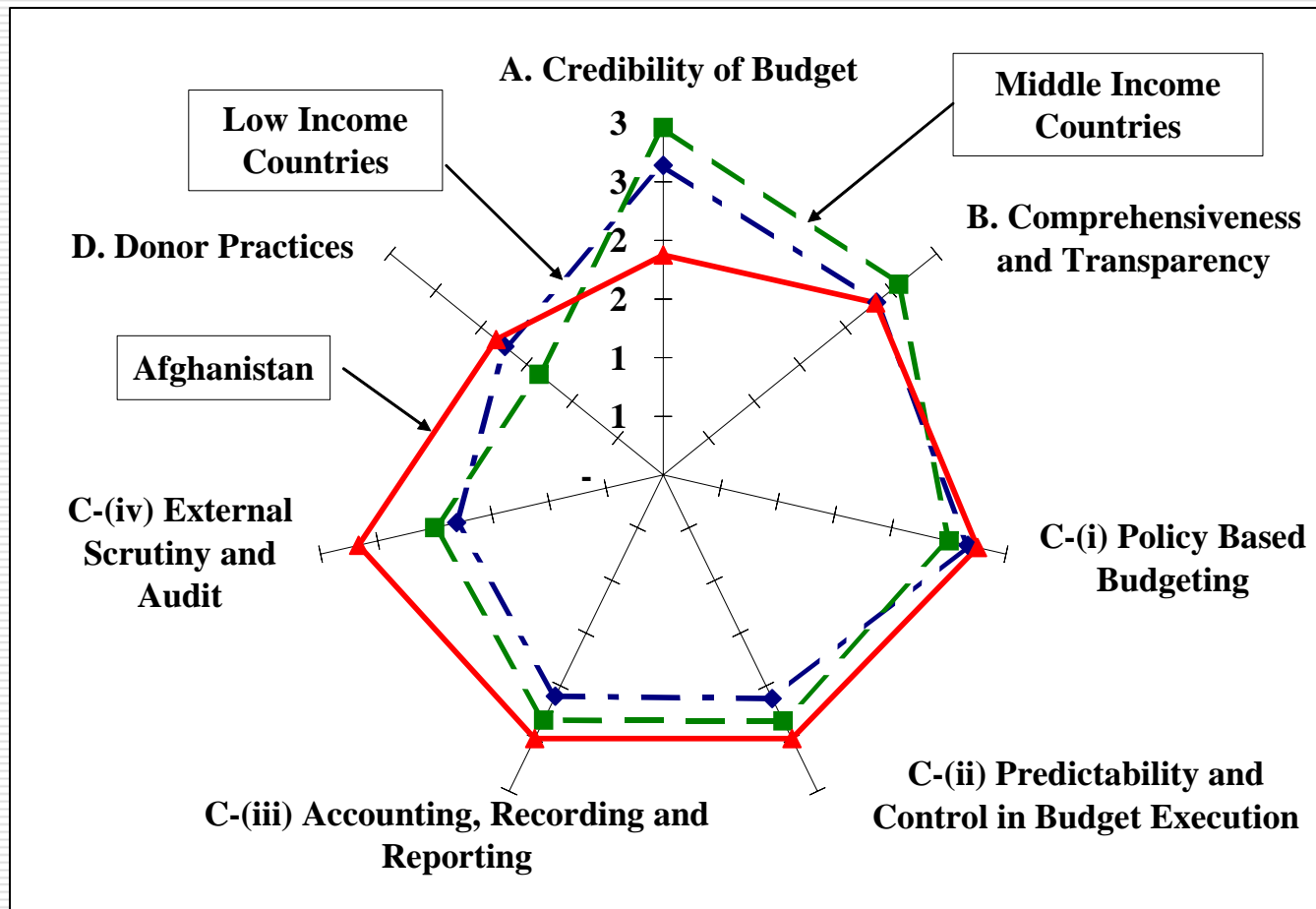
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- ❑ Some indicators are not really comparable between 1<sup>st</sup> and 2<sup>nd</sup> assessments as the assessment was based on limited information
  - ❑ Developments since December 2007 are not reflected in the ratings, although they are explained in the narrative parts of the each indicator as necessary
  - ❑ PEFA does not fully focus on (i) the PFM system at sub-national level; (ii) factors affecting PFM performance and (iii) fiscal or expenditure analysis
  - ❑ **External support:** PEFA ratings in 2005 and 2008 reflect significant external support (both advisory and operational) for the PFM system
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# Key Results – summary

Category	Up	→	Down
A. PFM Outturns: <i>Credibility of the budget</i>	0	2	2
B. Key Cross-Cutting Issues: <i>Comprehensiveness and Transparency</i>	4	2	0
C. Budget Cycle	14	4	0
D. Donor Practices	0	1	2
<b><u>Total</u></b>	<b><u>18</u></b>	<b><u>9</u></b>	<b><u>4</u></b>

# Key Results: International Comparison



**Note:** Low income countries: average of 12 countries, middle income countries: average of 11 countries

# Key findings: Highlights (i)

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- ❑ **Legal framework:** PFEM Law (Jul 05); Income Tax Law (Nov 05) and Procurement Law (Oct 05) and supporting regulations provide solid legal foundation
  - ❑ **Technical expertise:** MoF has seen improvements; additional emphasis on sustainable staff development crucial
  - ❑ **Credibility:** Operating budget is credible and supported by strong revenues and donor assistance; gap between budget and actual remains high in the development budget
  - ❑ **Comprehensiveness:** fiscal oversight of commercial activities of government (e.g. SOE's) and municipalities is practically non-existent
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# Key findings: Highlights (ii)

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- ❑ **Process:** process is based on multi-year fiscal planning at ministry/agency levels
  - ❑ **Long-term fiscal planning:** Further progress on costed sector strategies and linkage between investments and future recurrent expenditures will be key
  - ❑ **Effectiveness:** decentralized payroll process contributes to timely payroll records
  - ❑ **Audit:** The quality of the review of the annual budget statement must be improved; internal audit in line ministries is weak
  - ❑ **Donors:** Donor support through external budget should be improved (e.g. reporting and alignment with national strategies)
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# Looking ahead: further improving PFM in Afghanistan

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- ❑ **Credibility of budget:** (i) narrowing the gap between the budget and realization of core development expenditures; (ii) improving ANDS costing exercise
  - ❑ **PFM capacity outside MoF:** capacity building in line ministries (e.g. cash management system)
  - ❑ **Comprehensiveness and reporting:** improved reporting of SOEs and expenditure payment arrears
  - ❑ **Internal and external audit:** Skills of audit staff must be further developed.
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