Islamic Republic of Afghanistan

Strategic Overview – Development and Public Financial Management

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Summary

The President's Office and the Ministry of Finance are exploring policy options to increase the amount of resources available to national priorities, to improve the effectiveness of development assistance being channeled through the national budget and to ensure the Public Financial Management system in Afghanistan is efficient and fit for purpose. As part of that process, an expert review was commissioned and conducted from 12 to 31 March 2015. This overview summarizes the findings of the review. It draws on two additional technical papers prepared by the review team, a note on bottlenecks and budget execution, and a Fiduciary and Development Risk Assessment.[1]

Improvements in financial management capacity of the Government in Afghanistan have been steady over the last 12 years. Afghanistan has more capacity for managing public finances than many other comparable countries, but there are some big challenges facing the Government. The budget is overwhelmingly reliant on foreign aid and budget fragmentation due to the structure of the budget means there is little or no flexibility for the Government to pursue its priorities or drive efficiencies.

The Government will need to take on some long-term structural reforms to its budget and to some extent change the perceptions of the donors. Bringing more funds "on-budget" is not the answer unless there are some changes to the type of assistance provided. Efforts aimed at bringing more development assistance "on-budget" have not led to more flexibility or ownership as funding is still locked up in non-discretionary projects. While changing this situation will take some years, it is important to begin the reform process immediately.

There are some immediate actions that can be taken to improve the next budget process, both in terms of reforms to internal Government systems, processes and institutional arrangements; as well as the way the Government negotiates development assistance.

The first step is to put in place a clear interim development strategy based on the Government's priorities and the security, economic and social outlook. The first priority for the Government must be a sustainable national budget, driven by more revenue and better targeting of spending, not austerity measures. An interim strategy should provide a context for the 1395 budget.

The Government must take the lead in the PFM Roadmap process to drive reforms in the MOF and in key line ministries. Key policies like anti-corruption must be reflected in this change process. Institutional arrangements also need to be adjusted to support and drive these reforms.

[1] The review was conducted by the Policy Department of the Ministry of Finance and was assisted by two independent public finance economists, Mr Vincent Ashcroft and Mr Andrew Laing. The review was also joined by Ms Kathy Whimp, a Public Financial Management Specialist with the World Bank's Governance Global Practice.

Recommendations

(a) **Put in place a development strategy based on key Government priorities and the economic, social and security outlook.**

Afghanistan is in need of a strong policy narrative. Links between economic, social and security analysis and the budget need to be strengthened and used to better align resources with priorities. At present the priorities are driven by bottom-up planning and resources locked into projects. A development strategy is the first step towards changing that.

(b) **Prioritize efforts to ensure the sustainability of the budget.**

The first priority for the budget is to ensure the sustainability of public investment, which means raising more revenue and securing predictable foreign aid flows. Continuing with austerity measures will undermine progress in building Government credibility. Some decreases in development budget spending to allow for reprioritization of funds to higher priorities is a realistic option.

(c) **Engage the donors on the budget reform process with a view to consolidating the budget and creating some flexibility.**

The fragmentation of the budget makes it difficult to improve outcomes. There needs to be agreement to a consolidated national budget in the long-term. First steps towards that goal should be taken immediately. Donors and Government also need to explore more innovative options for aligning budget resources to Government priorities

(d) **Institute a comprehensive reform process for the budget led by the MOF.**

The Public Financial Management Roadmap is the right tool to drive the necessary reforms. PFM reforms must reach beyond the Ministry of Finance to key line Ministries. The Government needs to lead the donors on these reforms by establishing a high level management group to lead reforms and by commissioning its own detailed risk analysis.

(e) **Begin the process of aligning institutional arrangements to support reforms.**

In order for reforms to work, there will need to be strong leadership and institutional arrangements need to be aligned to reforms. There needs to be stronger links between policy departments and the budget and treasury directorates-general. Consolidating fiscal, development and budget policy under one team would make sense. This needs to be reinforced by a much more integrated management culture at the MOF where the key departments work together under the leadership of the Minister.

Context

Afghanistan faces a unique set of circumstances. The on-going conflict continues to cause insecurity and Afghanistan is still developing its institutions both economic and political. This has led to variable economic growth and uneven development. Afghanistan remains dependent on aid to finance the budget and capacity across the Government is still quite low. Development of institutional capacity within the Government has also been uneven, with reliance on technical assistance still prevalent in many areas. However, Afghanistan's public financial management is better in many respects than most low income or fragile states and comparable to many other more developed countries.

This somewhat unusual context, a highly aid dependent Government with a reasonable capacity to manage public finances, presents the Government with potential opportunities to engage donors on more innovative options for financing the budget. Change is badly needed as at present the structure of the budget is not enabling the Government to pursue its development objectives or reforms in the way it should.

Fragmentation caused by separating the operating and development budgets and the prevailing bottom-up nature of the planning process means the Government has few levers to pull in order to pursue development or reform objectives or to increase efficiency. The operating budget is constrained by increasing security and salary costs while the development budget is driven by projects, mostly conceived by donors in consultation with line ministries. This has established a base where most of the operating and development budgets are locked into existing commitments or projects that don't necessarily align to the Government's priorities.

This fundamental issue of gaining control over the strategic planning process is critical. It is unlikely that the Government will be able to make this current "system" work in the long-term and still achieve its objectives.

Having said that, the issues are complex and there are no quick fixes. The Government is working with a large number of donors and projects making the task of bringing them together under a strategic framework very challenging. The Government deals with the Country Office or Embassy on strategic policy issues while each donor has sector focused projects with individual objectives and project managers. In the end the priorities tend to reflect project goals rather than strategic development objectives.

Attempts to get better alignment between Government and donors through the commitment to at least 50% of funds "on-budget" has led to more money in the Afghanistan Reconstruction Trust Fund (ARTF), which to some extent is a good thing for the Government. These commitments have also led to more non-discretionary project funding on the development budget, which is administratively burdensome for the Government with little or no additional flexibility or ownership. Overall the commitment to more funds "on-budget" has not at this stage led to more consolidation of the budget or better alignment of development objectives.

This perverse outcome is largely because both multilateral and bilateral donors work on a project cycle. There is little or no incentive and often no mechanism for donors to transfer funds between programs even if it would increase the efficiency of the overall development budget. They are simply not set up to work that way. So while some funds have been moved "on-budget" the priorities have remained largely the same. For all practical purposes "on-budget, non-discretionary project" just means the Government is being held responsible for the performance of projects they have little or no control over.

This situation is compounded by two related problems. Donor decisions are to a large extent driven by their fear of financial mismanagement and corruption. These fears have some foundation given perceived levels of corruption and this leads donors to be risk-averse. In order to reduce budget fragmentation and gain some flexibility the Government will have to convince donors of the merits of exploring new options that will increase development gains without significantly increasing fiduciary risk.

Given the urgent need to show progress and to create some space for reforms some actions will need to be taken immediately using more innovative approaches to existing aid instruments. This overview discusses some options and sets out some more detailed analysis in the accompanying two technical papers.

Economic Narrative and Development Strategy

The first priority for the Government is a focused development strategy based on a clear economic narrative. The Afghanistan National Development Strategy (ANDS) served a very useful function to bring Government and donors together around a common set of objectives. The National Priority Programs also help to frame those objectives and has helped to some extent to focus resources since the Kabul Conference in 2010. This process has largely stalled and a new strategy is required. Ideally one that goes one step further than the ANDS and has much more direct links between the national budget and the development strategy.

This should be a consultative process and may take up to a year, so the Government should consider putting something interim in place. This need not be overly complex initially and should focus on providing a clear context for the budget.

There has been some good analysis done on the economic outlook, including by the Fiscal Policy Department in the MOF and by the World Bank. The important message is that economic and social development in Afghanistan will only be achieved over a very long timeframe. Even with reasonably optimistic levels of growth over the next 10 years Afghanistan is likely to reach only the bottom of the South Asia Regional average for GDP per capita and will remain a poor country. So a development strategy for lifting up living standards to a reasonable or middle income level needs to be measured in multiples of decades, not in years or even a single decade.

It is also important to acknowledge that Afghanistan is still a fragile state and as such, building legitimacy of the state is at least if not more important than economic or development results in the short to medium-term. The development strategy has to be focused on stability, which reinforces the importance of peace negotiations and security spending, and prioritization of public investment which produces incomes and jobs, rather than services per se.

In terms of the long-run drivers of growth, public investment is going to remain critical for the next 40 years. Much is being made of the importance of the private sector and private investment, but given the very low level of the capital stock and on-going challenges in improving governance and social capital in Afghanistan, it is going to be public investment that will crowd in private investment, and it will take a long time. Ensuring a sustainable budget is therefore the first and most important priority both in the short-term and for long-term development.

From a macroeconomic stability perspective one of the biggest risks other than security is a current account crisis as Afghanistan continues to rely on imports to cover low levels of domestic production. Up until now aid flows have masked this risk but as donors withdraw or reduce their aid investments over the next 10 years, extractive industries are the only realistic source of foreign investment and export income to fund the structural current account deficit Afghanistan is likely to face for many years. Extractive industries will take a while to ramp up, so the macroeconomic goal needs to be to maintain foreign aid flows for the time being and phase them out as investments and income from resources increases; the so called soft landing.

In terms of the vulnerability of the poor, improved agricultural productivity is the best and almost only way to insulate the poor against extreme poverty as most of their income is derived from agriculture. This is not only a case of more investment in infrastructure, but also looking at a strategy for land management and improving traditional methods of production which have begun to break down. Social protection should also play a part, but will only work if there is sufficient fiscal space to allow it.

If the Government accepts this outlook, then an interim development strategy becomes relatively clear. The Government must first consolidate its fiscal position to make sure it can sustain public investment. This does not mean more austerity to balance the operating budget, which will only compound existing problems. It means more revenue through new taxes, better administration and improved compliance. Security spending aside, it also means better targeting of public investment at the drivers of growth - more public investment in agricultural systems, roads and power and for investment both public and private in extractive industries.

The Government needs to be able to harness the purchasing power of the Government to foster local industries in key sectors like construction, logistics and agriculture, while at the same time ensuring Government procurement is open and transparent. Extractive industries will also require the Government to be able manage the regulatory environment and any land or resettlement issues to maximize the benefits to Afghanistan and avoid the so called resource curse.

This is not to say that building social capital through investment in health, education, and social protection is not an important goal. Significant percentages of the budget should still be allocated to these areas, but in terms of the sequencing and prioritization of the development strategy, they will have less of an impact on stability, growth and extreme poverty in the short to medium-term.

This strategy needs to be articulated clearly and the Government needs to adjust the budget process to be a vehicle for realizing its goals. If aid flows are falling over time then the only way to create fiscal space for development priorities in the longer-term is more revenue and in the shorter-term is to negotiate more flexibility with the donors over the national budget.

The Budget

If the Government accepts the broad economic and fiscal narrative outlined above then the first step is for the President and the Minister for Finance to begin the process of remaking the budget, both the structure and the process.

Revenue

Options for more revenue are reasonably constrained, but barring an external shock, revenue should strengthen post the election as the economy picks up. Options for increasing taxation revenue are especially constrained. The introduction of a VAT at 5% has been legislated but at that rate is likely to cause a reduction in revenue in the short-term if the BRT is lowered as the law requires. While this revenue shortfall is an immediate problem, VAT will grow as the economy grows and so remains a better instrument than BRT in the long-run.

A VAT is regressive in the sense that it is equally levied on the rich and the poor, but it has a broader base than BRT and is a growth tax that will increase as the economy expands. This means much greater potential for redistribution by the Government to services and investment that help the poor. In the initial stages of implementation the Government can use selective compliance (ignoring the informal economy for instance) to ensure the poor are not adversely affected by the tax. BRT on the other hand will reach a natural plateau at some point and also presents some long term risks to the budget from relying on collections from a relatively small number of businesses compared to a VAT. There are few other options available to the

Government that can raise large amounts of revenue and are not expensive to administer or that in the long run will tie the economy up in administration as they expand.

Adequate resourcing of the Revenue and Customs Departments is vital to bolster efforts at better administration and compliance. There have already been significant investments in the Customs Department in particular, however more time, political will and gradual increases in resources will pay off. Anecdotal evidence suggests a drop in Customs revenue has been associated with uncertainty during and post the election and an increase in corruption. There is therefore likely to be quite a bit of scope for additional revenue collections if administration is improved. Establishing a culture of professionalism in the Customs and Revenue Departments is a first order priority but requires significant investment.

Letting contracts in the extractive industries also needs to be prioritized, since any revenue from resources will take years to be realized. Even if little can be done in the immediate short-run, moving forward with plans is important to signal to donors the Government is serious about fiscal sustainability.

The structure of the budget

A more difficult issue is the structure of the budget and creating some fiscal space to allow the Government to direct more resources to its priorities. The first step is to begin the process (with donors) to move to a consolidated national budget.

The split between the operating and development budgets is an outdated framework that simply serves to fragment the budget. It severely undermines planning and reduces flexibility, which leads to inefficiencies. The most obvious example of this is capital investments through the development budget. These do not include the full life time cost of the operation and maintenance of the infrastructure produced (a policy agreed to by the Government and the donors). With the operating budget already over committed it cannot begin to meet the recurrent calls on it and so infrastructure is often under-utilized or not maintained.

Moving to a consolidated budget also provides a sustainable solution for the financing gap on the operating budget. If you combine the development and operating budgets then the financing gap could be met by lowering budgets for non-discretionary development projects, some of which are performing poorly and/or are not top tier priorities for the Government. An example might be building less schools but increasing operations and maintenance for existing schools. Some established longer term programs, despite routine over-budgeting over a number of years, simply continue on with the same assumptions in the budget each year. This should not happen under a combined budget.

Any process to consolidate the national budget will take some years. In the meantime the Government needs to explore options for getting the donors to agree to more operating budget (general budget support) and more discretionary development budget (we can call this sector budget support). Essentially moving away from projects to program level or sector level support. This has been tried before with Program Budgeting but has largely failed. Securing this agreement in the short-term is going to be complicated.

Most of the donors do not have the tools to move to more flexible arrangements, and quite a few do not have the political interest or will to do so even if they could due to the fiduciary risks already discussed. That is not to say that there are no options. Some examples of innovation can be found in the way ARTF operates. The Government and the World Bank have agreed to use the recurrent and investment windows under the ARTF to move resources around and provide more flexibility including through some performance incentives. This is intended to create a small surplus on the operating budget that can be used as discretionary development budget by the Government.

This worked to some degree as long as the operating budget was in surplus but with falling revenue and increasing security and salary costs, this arrangement has broken down. Last year despite there being $100 million set aside for operations and maintenance through the incentive program in the ARTF, the Government received nothing as the operating budget ran short of cash and MOF had to curtail expenditure. This meant that despite plans to spend money on operations and maintenance, the Government could not do so due to cash flow problems and did not reach the benchmarks agreed under the grant arrangements.

This means there was a surplus on the development budget but a deficit on the operating budget. The result was a loss to the Government and no funds disbursed by the World Bank. Despite everyone's best efforts it was a loss on all sides.

While donors have supported the recurrent window of the ARTF, there are very few other examples of innovation, which has led the already small discretionary development budget to shrink even further over the last two years. New options are needed, but it will take time to develop them meaning existing aid instruments will need to be made to work better.

As set out in the accompanying *Fiduciary and Development Risk Assessment*, there is a strong case for additional budget support and expanding performance based financing. However the Government will need the support of at least its key donors, the World Bank, the UK and the US.

Perceptions around the operating and development budgets are also important in negotiating more flexible arrangements. Donors at the moment tend to make the distinction between operational budget which they see as risky, and the development budget which they see as less risky and more geared to helping the poor. While making project funding non-discretionary is seen as a tool to mitigate fiduciary risks. The Government will need to change these perceptions through PFM reforms and improved performance if progress is to be made.

The budget process

The second part of the changes the Government needs to make is to the budget process. At present the way the budget process is managed entrenches the bottom up project focused planning cycle. Even in the operating budget the MOF asks ministries to submit “bids” for what they want to do, almost regardless of the reality of the fiscal constraints. Ceilings are provided but are ignored. Ceilings in any case are sending the message that you can have funds up to a certain level regardless of the overall priorities or needs. This mindset needs to change.

On the development budget, MOF have little incentive or authority to push back on projects proposed by line ministries and their development partners. They simply include in the budget whatever numbers the donor has said they will provide in support. Analysis in the accompanying paper on *Bottlenecks and Budget Execution* shows that project planning is poor and budgets are more geared to the multi-year cycle of the project than the annual budget cycle. This project based approach entrenches the fragmentation of the budget and undermines the credibility of the Government’s financial management.

The Government could consider reforms to reshape the budget process to strengthen top-down strategic priority setting. It is important as noted to put a longer-term development strategy in place, but the President can still issue guidance now to Ministers and donors on some top tier development priorities given the medium-term economic and fiscal outlook. This would provide some context and direction for the 1395 Budget process. In that guidance the President could clearly state what the priorities are, and MOF can then seek submissions only from Ministries and donors in those areas. The rest of the Ministries will maintain their base level of funding plus some reasonable parameter driven adjustments, budget permitting. This process of annual priority setting would happen each year, but would be guided by the long-term development strategy from 1396.

Importantly this would need to apply to donors as well as ministries, so that if a new project is being proposed it must be within the development strategy, and the annual Presidential priorities. This will combat the tendency of donors to cherry pick what they fund under the NPPs and still be aligned to Government priorities. There is a lot of work to do in setting sector or ministry baselines and it will take several budget cycles for the priorities to shift fully to a new development strategy, but the process could begin this year.

Alternative financing options for the budget

There are a number of options for the Government to seek funding for the operational and development budgets through an alternative financing strategy using existing aid instruments. A strategy that shifts some of the fiduciary risk to the Government and which is financed in part by performance incentives would be complimentary to the Government’s reform goals and mitigate donor concerns about fiduciary risks. In effect the Government should back itself to meet reform targets while asking donors to help with cash flow and reward good performance. At present the only large instrument using incentives is the ARTF which relies on the Government committing operating budget up front. As discussed this did not work well last year and may also be ineffective this year with the cash flow issues the Government faces on the operating budget.

The Government needs to consider a strategy for negotiating with donors that is geared more towards Government needs. This would mean the Government articulates its preferences clearly, something like more budget support first, then more performance linked aid, then more discretionary project funding and last of all non-discretionary project funding. For each the Government should have a strategy for what reforms and accountability measures it is prepared to agree to in order to get more flexible aid. To do this successfully the Government should try to reduce the number of donors it is negotiating with and become more familiar with the options and policies of the larger donors. Some investment in this aspect of Government capacity could result in some significant returns in securing arrangements more aligned to the Government's needs.

For example, apart from the existing arrangements under the ARTF, the Government could consider starting discussions with the World Bank to expand the use of Development Policy Operations (DPO) which could be integrated into or aligned with the IMF staff monitored program. These DPO's could be funded as grants under IDA or potentially add in some targeted concessional loans. DPO's are based on policy reforms and while not general budget support, should be structured around the Government's reform agenda. Importantly, the World Bank has more flexibility or discretion in its assessment of whether the policy "triggers" on DPOs have been met which then leads to disbursement of the loan or grant. As against a regular grant agreement where the outputs are achieved or not and the Bank has little discretion.

While the Government would need to be cautious and not take on debt without careful consideration of the costs and benefits, given the budget's weak revenue base, targeted borrowing may be a good option. There is a clear financing gap so there is a prima facie case for borrowing if the Government can negotiate heavily concessional conditions and soft loan triggers until the budget improves as reforms take hold. It is important to emphasize here that the underlying goal in negotiating these arrangements would not only be policy outcomes, but also the sustainability of Government finances and increasing the credibility of the Government.

Extending the use of performance-based grant mechanisms in tandem with more policy level financing could also be negotiated to underwrite loans, or as a top up of grants based on the Government meeting some agreed performance benchmarks. Using the same example of incentives for operations and maintenance under the ARTF, in last years' budget, the ARTF

Incentive Program would have paid the Government $1.50 for every $1 of spending on operations and maintenance up to $100 million. The Government was not able to meet the benchmarks under this program due to cash flow problems during the budget crisis. If the Government had been able to negotiate a program that allowed it to either receive some money up front in grants for the amount budgeted to spend on O&M it would have had an additional $33 million from incentive payments to put into its operating budget. Even if the Government had borrowed to meet the O&M costs, the performance grant could have paid back the loan. Since the loans would be concessional, the performance grant would have more than covered the loan and would still have provided the Government with a bonus.

The additional advantage of the performance based grant option is that bilateral donors can choose to top-up the program with no fiduciary risks as they only pay if the Government meets the targets under the grant agreement. Essentially the fiduciary risks are partly transferred to the Government. This has been done successfully in Timor-Leste where the PFM capacity is considered to be lower than Afghanistan.

This approach could in theory be used in any sector or institutional setting provided the necessary preconditions are in place. A target of up to 10% of ODA could translate into up to $400 million in DPOs per year, and be offset in part by closing non-discretionary development programs and increasing performance linked payments. Any arrangements like this would require the Government to meet preconditions set by the Bank and the IMF and may take 1 to 2 years to set up but are worth investigating.

Public Financial Management

Budget execution has become a major focus for government and donors in Afghanistan. While execution of the operating budget has improved considerably, execution of the development budget—where most donor financing is focused—has remained an issue of concern. In the 2012 Tokyo Mutual Accountability Framework, the Government undertook to increase budget execution to 75% by 2017. It will be challenging to reach this target, and may not be a useful metric for measuring the Government's performance.

Budget execution rates measure how much of what is budgeted has been spent, but low execution rates can be driven by weak capacity (at various stages of the budget cycle), over-optimistic budgeting, unforeseen shortfalls in revenue, or a combination of all three. Improving the budget execution rate is not necessarily the same thing as improving the performance of the budget and by itself may not result in better outcomes unless the budget is better aligned to government's priorities. This review has identified three broad areas for the government's attention: better budgeting of expenditure and forecasting of revenue; better project planning and shifting from administratively heavy ex-ante cash controls to ex-poste expenditure controls including better monitoring and audits. Further detailed analysis can be found in the accompanying paper on *Bottlenecks and Budget Execution*.

Human resources and institutional arrangements to support reforms

Human Resources

Human resource development remains a major constraint. Many departments rely heavily on contract employees or technical assistance to deliver core functions. In MOF alone, the entire Fiscal Policy Directorate and a large pproportion of the Policy Department are relying on the Making Budgets Work program which ends in June 2015. The Budget Directorate General has a ratio of nearly 5 national contractors to every civil servant. Line Ministries vary but Health for example is almost entirely "outsourced".

The Capacity Building for Reform program or CBR is trying to address this looming risk, but in some ways only pushes the problem out by a few years. While CBR is better than other programs in that it requires ministries to have a plan for their HR and can only be used for positions that are *tashkeel*, it still pays staff at levels that are not sustainable for the budget in the long run.

This is a critical problem for the Government. Much of the TA in ministries is not performance managed and is likely to be relatively inefficient. With no incentive for managers to do anything about poor performing or relatively unproductive TA, human resource planning is being under resourced. In the short-term it would probably be better for the Government to allow programs like Making Budgets Work to lapse and force ministries to focus on a long-term strategic plan for their human resource needs and force line positions to be funded from the operating budget or under CBR. This would also allow the Government to prioritize resources to key ministries for the development strategy.

Making use of performance linked incentives that focus more on teams rather than themes would also help. While national goals are important, they are quite far removed from the day to day working lives of most civil servants. Incentives and budgets linked to key performance indicators at a team level are an effective way to improve human resource management at a ministry level.

Institutional arrangements

If the Government sets about negotiating a new structure for the budget with a reformed process, the institutional arrangements to support the reforms will need to be looked at.

A useful organizing framework for these types of reform programs is:

1. Leadership and ownership – do the reforms have buy-in from the top?
2. Good Bureaucrats – is the Government putting top people on the reforms and are the institutional structures supporting the reforms?
3. Professional staff – are the technical teams and support appropriate?
4. Donor support – are donor commitments locked in and will financing be predictable and sufficient to see the reforms through?

Leaving aside issues of leadership which are for the President and the Minister for Finance to determine, there are a number of key institutions in this context including the President's Office, the MOF, the Ministry of Economy and some key line ministries to consider.

Starting with the MOF, the process for the Clusters and the National Priority Programs put in place after the Kabul Conference in 2010 worked well initially but has now stalled. While the reasons for this are varied and complicated, it is clear that the Budget and Treasury Departments were not as well connected to this process as they needed to be. They need to be part of the process for the new development strategy and the new PFM Roadmap should explicitly reflect changes that support the development strategy, not just improvements to current systems and processes.

The role of the fiscal policy department is also crucial. At present there are not strong links between the fiscal policy department, who manage the medium term fiscal framework, the budget and treasury departments, and the policy department who are working on the development strategy. This was reflected in the downgrading of the relevant score in PEFA on fiscal planning from a B to a C in 2013.

The links between the aid management department of the MOF and the policy department are also not clear. This lack of clarity in roles results in donors feeling their engagement with the Government is at times both fragmented and lacking substance. Combining aid management, development policy and fiscal policy would make some sense. Clarifying the roles of the MOF and the Ministry of Economy in the development strategy is also important.

The operational budgets for Customs and Revenue also need reform. They are both treated in the same way as other departments within the MOF, with operational budgets centralized in the administration and finance department. Given both agencies have very different operating environments to the rest of the MOF, more autonomy and a revenue specific funding model should be considered if the Government wants more progress on revenue.

The context around appropriate support for PFM reform and donor funding are both positive. As already noted the major donors remain committed to PFM reforms and have current programs or plans for new phases of programs. Funding should not be a problem over the term of the Government. The Government needs to lead the PFM Roadmap process and should form a steering committee within the MOF of the DGs for Policy, Budget, Treasury, Revenue and Customs to make sure that donor support matches the Roadmap, not the other way around.

The role and capacity of the President's Office is also very important. The analysis in this paper assumes a strong role for the President and therefore his office. If these reforms are to work, some work is required to set out how the President's office is structured and what functions are delegated to the MOF and line Ministries.

An institutional or organizational development review led by the President's Office and the MOF, to match up institutional arrangements with reforms, should be undertaken quickly. This is also likely to be welcomed by donors as a practical step to improve policy coherence and engagement by the Government.