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This action is funded by the European Union

ANNEX II

of the Commission Implementing Decision amending Implementing Decisions C(2017)8795, C(2018)5873, C(2019)8176, and C(2020)5471 on the financing of the annual action programmes for 2017 (part 2), 2018 (parts 1 and 2), 2019 (parts 1 and 2), and 2020 (part 1 and 2) in favour of Afghanistan from the general budget of the Union

**Action Document for the State and Resilience Building Contract for Afghanistan
2018-2021**

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 110(2) of the Financial Regulation in the following sections concerning calls for proposals: 5.4.2. “Grants – call for proposals (direct management)”.

1. Title/basic act/ CRIS number	State Building and Resilience Contract for Afghanistan II (2018-2021) CRIS number: ACA/2018/40698 and ACA/2019/41434 Financed under the Development Cooperation Instrument
2. Zone benefiting from the action/location	Afghanistan The action shall be carried out nationwide
3. Programming document	Addendum to the Multiannual Indicative Programme (MIP) between the European Union and Afghanistan for the period 2014-2020 ¹
4. Sector of concentration/ thematic area	MIP - All focal sectors
5. Amounts concerned	Total estimated cost: EUR 204 499 371 Total amount of EU budget contribution EUR 204 499 371 of which EUR 197 500 000 for budget support, EUR 6 999 371 for complementary support The contribution is for an amount of EUR 104 499 371 from the general budget of the European Union for the financial year 2018, and EUR 100 000 000 from the general budget of the European Union for the financial year 2019, subject to the availability of appropriations following the adoption of the relevant budget.

¹ C(2018)4741 of 20.7.2018, Annex I

6. Aid modality(ies) and implementation modality(ies)	Budget Support: State Building and Resilience Contract Project Modality: Direct Management - Procurement of services and Grants Indirect Management with the World Bank			
7 DAC code	General Budget Support 51010 (100%)			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	X	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	Not applicable			
10. SDGs	Primary SGD Goal: #8 <i>Promote inclusive and sustainable economic growth, employment and decent work for all</i> Secondary SDG Goals: # 1 <i>End poverty in all its forms everywhere</i> ; #3 <i>Ensure healthy lives and promote well-being for all at all ages</i> ; #4 <i>Ensure inclusive and quality education for all and promote lifelong learning</i> ; #5 <i>Achieve gender equality and empower all women and girls</i> ; # 6 <i>Ensure access to water and sanitation for all</i> ; #16: <i>Peace, justice and strong institutions</i> ; #17 <i>Partnerships for the goals</i> .			

SUMMARY

This action proposes the continuation of the state building approach for Afghanistan, beyond the first State Building Contract (SBC I, 2017-2018) signed at the Brussels Conference on Afghanistan. The SBC I is being successfully implemented in close partnership with the Government of Afghanistan providing the EU with a platform for strategic policy dialogue and increased leverage to influence the development and reconstruction process in the country. The SBC is also critically helping to build state legitimacy and shaping institutions for delivering to the people of Afghanistan. The SBC I is contributing to laying out and implementing the reform agenda associated with the 2017-2021 Afghan National Peace and Development Framework (ANPDF) and the new National Priority Programmes (NPPs) presented at the Brussels Conference on Afghanistan. A stocktaking on occasion of the Senior Officials meeting (SOM)

in October 2017 confirmed an earlier progress assessment by the EU which had led to a first major disbursement decision in July 2017.

The continuation of budget support in the form of the State and Resilience Building Contract II (2018-2020) shall thus support the Government with the full policy framework (ANPDF and NPPs) and reform agenda implementation as well as the consolidation of results, in turn setting up the foundations for a stable, prosperous society, addressing peace and security challenges. In terms of sustainability, the SRBC II shall continue providing the Government of Afghanistan with discretionary fiscal space to pursue its own strategic development priorities and policies under the ANPDF, prioritizing the implementation of important macro-economic reforms leading to reduced aid-dependency and improved democratic governance in Afghanistan through modern, transparent and accountable systems.

Building on lessons learnt from the SBC I package, together with a variable tranche of 50% for each disbursement, alignment with the Afghan financial year and other incentive programmes operating in Afghanistan, as well as reinforced complementary measures, the SRBC II shall support the Government to deliver on its forward looking political commitments and institutional reforms. Specifically, the SRBC II shall continue supporting strong Government action in the areas of (i) public sector reform and the fight against corruption, (ii) basic service delivery and gender equality, and (iii) public financial management and macro-economic stability with a particular focus on domestic revenue mobilisation, as it has been the case for the SBC I. Furthermore, as innovative feature of SBC2, in addition to these focus areas and in line with the MIP 2017 Mid-Term-Review's emerging priorities (such as Women's Economic Empowerment), it shall equally support business and investment climate reform for sustainable inclusive economic growth and the creation of jobs, and contribute to creating the conditions for future sector budget support in the core areas of EU intervention such as health and agriculture.

1. CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Afghanistan has made important progress on its way towards becoming a more functioning, accountable and sustainable state over the past fifteen years. However, one and a half years after the Brussels Conference of October 2016, the prospects for the period 2018-2020 remain fragile, with an intensified insurgency increasing its influence over territory and population² and making peace prospects more elusive. Two elections planned for 2018 (Parliamentary/Districts) and 2019 (Presidential/Provinces) bear the risk of increasing political uncertainty. The number of returnees from Iran and Pakistan, as well as Internally Displaced Persons (IDPs), reached more than 1.2 million in 2016. In 2017, 318 000 persons were newly displaced. For 2018, a new wave of returnee migrants from Pakistan is expected, at least similar in size to the 2016 figures. The worsening security situation coupled with political instability and a fragile economy have eroded public trust and led to increased out-migration flows. Increased vulnerability and disruption of government services have a severe impact on some of the lowest human development indicators globally for poverty, literacy rate and unemployment,

² Report of the UN Secretary General to UN General Assembly of 15 December 2017

as evidenced notably by a substantial increase of poverty to 55% in 2016/2017³. High vulnerability to climate change and natural disasters multiplies humanitarian aid needs and puts development gains made so far at risk.

The unstable government arrangement based on competing political and ethnic constituencies contributes to the Afghan democracy being challenged by slow electoral reforms and vested political interests. The human rights situation remains precarious, especially with regard to women, children and human rights defenders. Large parts of the population face obstacles in accessing government services and realising basic rights. Stagnant economic growth and lack of employment opportunities are particularly acute challenges in light of the fast-growing population - 50% of Afghan citizens are below the age of 15. While the government has been able to increase its revenue collection, endemic corruption is detrimental not only to well-functioning institutions, but also to entrepreneurship. Business sentiment remains suppressed. This underlines Afghanistan's continued heavy dependency on external support for both its security and development.

The Warsaw and Brussels conferences of 2016 underlined Afghanistan's massive dependency on external support for its security and development despite better growth and revenue collection performance over the last two years. According to World Bank projections, Afghanistan's overall budget expenditure is expected to increase in the years to come, mainly due to the fact that security spending previously covered by the international community is now being moved on-budget. As for the expected civil expenditure increase - partly funded by aid committed during BCA -, it will serve only to maintain the current service levels to a larger population and to cover an increasing recurrent expenditure of essential infrastructure assets being transferred to the Government. Further revenue gains are likely to come mostly from economic growth and an expanded tax base.

However, at the same time, the Government has taken important reform measures in 2016 and 2017 with support of the International Community to address the situation and reported on these achievements, notably the national anti-corruption strategy, at the SOM in October 2017. The Government has also sent a letter of intent and an action plan to join the Open Government Partnership late 2017.

1.1.1 Public Policy Assessment and EU Policy Framework

The main framework for policy dialogue between donors and the Afghan government has been established in 2012 as the Tokyo Mutual Accountability Framework (TMAF), subsequently refreshed in 2015 as Self Reliance through Mutual Accountability Framework (SMAF) and in 2016 at the Brussels Conference on Afghanistan as the smart SMAF. The smart SMAF 2017-2018 contains a set of 15 time-bound and clearly defined deliverables for the Government.

There were positive developments in 2016 leading up to the *Brussels Conference on Afghanistan* (BCA, October 2016) in the framework of which the EU State Building Contract was signed. The recent Senior Officials Meeting (SOM) of October 2017 commended the

³ Preliminary figures of the Afghanistan Living Conditions Survey (national household survey) and Poverty Analysis of 2016/2017

progress on policy reform developments (such as the all-of-government anti-corruption strategy) and implementation (Citizen Charter and Women Economic Empowerment Programme) whilst highlighting the challenges in terms of security, political uncertainty and fiscal sustainability. Afghanistan's national policies have been consolidated in 2016 in the ANPDF⁴ and underpinned by ten sector-specific NPPs⁵ with a strong focus on delivering results, driving policies through public finance management and streamlined NPPs, thereby increasing linkages among ministries and reducing fragmentation. The new development policies reflect a credible and ambitious Afghan leadership in formulating and implementing its reform priorities under reinforced ownership. ANPDF with its *pronounced focus on inclusive growth, job creation and human development* represents in this regard a *credible policy framework if implemented successfully*.

There has been a *positive albeit limited track record in ANPDF and NPPs policy implementation in 2017* due to delays in setting up an implementation and monitoring framework as well as the operationalization of a clear governance structure with development partners – Development Councils vs inter-ministerial executive Committees-, as well as the impact of external and internal shocks. Despite the Government's political commitment to the development policies delineated in the ANPDF and NPPs as well as commitment to recognizing the budget as the tool for development policy implementation, the integration of development policies into the national budget FY1396/2017 and FY1397/2018 is limited, mostly due to fiscal space constraints. The process of technical budget reform and a revision, prioritization and alignment of all the current projects and strategic plans of line ministries with the ANPDF⁶ introduced with the FY 1397 (2018) budget is based on more realistic revenue projections⁷ in

⁴ Afghanistan National Peace and Development Framework (ANPDF 2017-2021). Islamic Republic of Afghanistan 2016.

⁵ Afghanistan National Priority Programmes (NPPs 2017-2021). Islamic Republic of Afghanistan 2016 and 2017. Citizen Charter, Women's Economic Empowerment (WEE), National Infrastructure Plan, National Comprehensive Agriculture Development Programme, Justice Sector Reform Plan, National Mineral and Resources Development Programme, Human Capital Development Programme, Effective Governance Programme (PMF and Subnational Governance), Urban Development Programme, Private Sector Development Programme.

Of these, the PFM component (Fiscal Performance Improvement Plan) for the Effective Governance Programme started implementation in 2016; three have started implementation in early 2017 (Citizen Charter, Women Economic Empowerment, Justice and Legal Sector Reform Programme); three are still being finalized following the presentation of their concept notes at BCA (Urban Development Programme, the National Infrastructure Programme and the Comprehensive Agriculture Development Programme) and four are being developed for presentation at the Ministerial meeting in November 2018 (Private Sector Development Programme, Effective Governance Programme – subnational governance component, National Mineral and Resources Development Programme, and Human Capital Development Programme).

⁶ Under the leadership of the Minister of Finance and incentivized by the EU's SBC I, the foundations were set for a policy-based budget through a series of crucial reform measures including: (1) unprecedented level of disclosures including historical data; (2) full consolidation of Development Budget (both discretionary and non-discretionary) and Operating Budget; (3) multi-dimensional budgeting (classification by economic category, administrative code, province, funding, projects, programs, etc.); (4) parameter-driven rolling Forward Estimates (i.e. Medium-term Expenditure Framework—MTEF) for three years beyond the budget year; and (5) Statement of Compliance with international standards (currently Government Finance Statistics—GFS on cash basis).

⁷ (1) Projected real GDP growth in 2018-2020 (1397-99) - at 3.4 percent per year - is on average more than one percentage point lower than it was in the 2017 budget; (2) Revenue projections also are lower, reducing the scope for inflated expenditures given the essentially balanced budget approach. For the three years following the actual budget year (2019, 2020 and 2021), this budget projects revenue increasing on average by more than two percentage points less per year than the 2017 budget did for its three outer years; (3) On-budget aid projections are much more conservative in the 2018 budget which follows from a painful lesson learnt in 2017, when grant receipts were lower than budgeted for that year, resulting in an estimated shortfall of AFN 40 billion (close to USD 600m). This budget projects grants dropping by a further AFN 27 billion (approaching USD

combination with a new approach for setting expenditure targets on basis of the previous year's estimated actual expenditures. This change has the effect of making the expenditure targets in the 2018 budget more conservative: 35.6 billion AFN (~ EUR 420 million) discretionary development budget for FY1397/2018, compared to 63 billion AFN (~ EUR 740 million) for FY1396/2017.⁸ These budget reforms already incentivized by the SBC I also aim at ensuring that budget reform and the underlying fiscal framework sustain the Government's pursuit of increased self-reliance, state-building and overall peace-building in Afghanistan as well as ensuring that the national budget prioritizes spending towards initiatives that spur sustainable and inclusive growth, jobs creation and the provision of basic services to the population – within the well-known fiscal constraints.

In 2017, Afghanistan is still considered one of the worst places to be a woman. The 2017-18 Women, Peace and Security Index puts Afghanistan at rank 152 out of 153 countries. The Afghan Government sees an important entry point for the overall improvement of the situation of women in dedicated measures for economic empowerment. As such the National Priority Programme for Women Economic Empowerment (WEE NPP⁹) after its presentation at the BCA in October 2016, was officially launched on 8 March 2017 and the Government continues reiterating its commitment at official meetings ever since.

The State and Resilience Building Contract (SRBC) implementation relies on satisfactory progress in all four eligibility criteria: (a) public policies, (b) macro-economic framework, (c) public financial management, and (d) transparency and oversight, which are evidently linked to the fulfilment of key smart SMAF commitments (2017-2018 as well as anticipated future SMAF commitments for 2019-2020) and the finalisation/implementation of the NPPs, public financial management and budget transparency (in particular anti-corruption measures). In partnership with the international community, the EU, together with Member States, is enticing its *strategic policy dialogue* and *mobilising political leverage* to support the Government in implementing the reform agenda and deliverables agreed. Development partners are aiming at

400m) in 2018, another AFN 23 billion (USD 341m) in 2019 and a further AFN 13 billion (USD 200m) in 2020. As a result, donor grants in the latter year are projected to drop around AFN 67 billion (more than USD 900m), 29 percent less than in 2017; (4) Most starkly, the 2018 budget projects what it calls a “fiscal cliff” for the final year of its forward estimates—2021, in which donor grants are projected to be AFN 87 billion (over USD 1 billion) lower than in 2020, a precipitous decline of 43 percent in that year alone. Cumulatively, this means a projected reduction of AFN 150 billion (crossing two billion USD) or 72 percent from 2017.

⁸ Under the leadership of the Minister of Finance and incentivized by the EU's SBC I, the foundations were set for a policy-based budget through a series of crucial reform measures including: (1) unprecedented level of disclosures including historical data; (2) full consolidation of Development Budget (both discretionary and non-discretionary) and Operating Budget; (3) multi-dimensional budgeting (classification by economic category, administrative code, province, funding, projects, programs, etc.); (4) parameter-driven rolling Forward Estimates (i.e. Medium-term Expenditure Framework—MTEF) for three years beyond the budget year; and (5) Statement of Compliance with international standards (currently Government Finance Statistics—GFS on cash basis).

⁹ The WEE NPP is designed to be delivered through existing mechanisms and institutions, scaling up successful interventions and improving coordination under a common framework rather than creating new initiatives. It builds on six programme components, with one set of three components aiming at the removal of constraints and the creation of a more enabling environment for the economic activities of women (removing legal barriers, capacity building, improved information and analysis on gender for public policies), while the other three components are aiming at better access for women to resources, skills, and support for successful economic activities (inclusive access to finance, improved access to agricultural services and markets, access to creative economy markets).

collaborating in the numerous policy fora to monitor the implementation of policy commitments such as the *stock-taking exercises at the Joint Coordination and Monitoring Board (JCMB)* meeting in July 2017, the *Senior Officials Meeting (SOM)* in October 2017 and the Ministerial meeting scheduled for end November 2018.

The SRBC II is fully aligned with the EU strategy for Afghanistan adopted in October 2017¹⁰ and its objectives, namely i) promoting peace, stability and regional security; ii) strengthening democracy, the rule of law and human rights and promoting good governance and women empowerment; iii) supporting economic and human development; and iv) addressing challenges related to migration. The SBC I and SRBC II are an integrative element of the revised EU Multiannual Indicative Programme (MIP) for the period 2018–2020 with its three focal sectors of (i) peace, stability and democracy, (ii) sustainable growth and jobs, and (iii) basic social services.

The SRBC II is similarly in line with the principles of the New Deal for Engagement in Fragile States and consistent with the new European Consensus on Development¹¹ that lays out how the work by the EU and its Member States on budget support will help to promote SDG implementation efforts in partner countries, improve macroeconomic and public financial management, and improve the business environment.

As regards the support to Women Economic Empowerment, the new European Consensus on Development and the Second Gender Action Plan "*Gender Equality and Women's Empowerment: Transforming the Lives of Girls and Women through EU External Relations 2016-2020*" both stipulate a need to encompass gender equality in EU development cooperation in a better way. Considering also the commitment made at the Brussels Conference, the EU has a strong responsibility to support the improvement of the current situation of women in Afghanistan as included in the mid-term review (MTR) of the MIP 2014-2020.

1.1.2 Stakeholder analysis

The key stakeholders of the SRBC are the Afghan government and oversight institutions such as the Supreme Audit Office and the Parliament and civil society organisations engaged in civic monitoring of public finance management. SRBC II will set more emphasis on such civil society involvement. On the development partners' side the International Monetary Fund (IMF) and, on basis of their ongoing budget support operations, World Bank and USAID are key partners. The ultimate beneficiary is the Afghan population, benefitting from improved service delivery and governance, and particularly the most vulnerable, who will be directly targeted for example through the Citizen's Charter NPP and the special focus on gender.

The Office of the President and the Ministry of Finance have key roles in coordinating development policies within the government as confirmed with their high commitment through the SBC I. The Ministry of Finance's role in managing the budgetary process, public financial management reforms and domestic revenue mobilisation, makes it an essential stakeholder. The

¹⁰ Afghanistan: European Union Strategy. <http://www.consilium.europa.eu/media/23921/st13098en17.pdf> and https://eeas.europa.eu/headquarters/headquarters-homepage/30280/joint-communication-european-parliament-and-council-elements-eu-strategy-afghanistan_en

¹¹ European consensus on development as adopted by the European Council on 18 May 2017.

Ministry of Finance / the State at large benefits directly from the increased budgetary space provided by the SRBC, allowing for reallocations to government priorities and towards better performing areas. The SRBC II will continue supporting the strengthening of audit oversight capacity and the independence of the Supreme Audit Office. The Parliament's oversight role is hampered by capacity and political constraints while some public participation of CSOs in the budgetary process already takes place. The Ministry of Labour, Social Affairs, Martyrs and Disabled (MoLSAMD) is the designated entity for the inter-governmental coordination of the Women Economic Empowerment NPP and thereby one of the counterpart for the EU Delegation's (EUD) support on all gender's related issues as well as the Ministry of Women Affairs (MoWA).

The World Bank has already implemented five budget support operations. During the implementation of the SBC I (2016-2018) the EU has established close cooperation on budget support with the World Bank and other experienced partners, including IMF, EU Member States and the United States. The World Bank's Afghanistan Reconstruction Trust Fund (ARTF) and the Asian Development Bank's Afghanistan Infrastructure Trust Fund (AITF) are on-budget operations with experience of more than ten years in Afghanistan. The ARTF includes an incentive programme with a focus on reform of public finance management and economic reform, as well as a public finance management support programme (supported by the EU as part of the AAP 2017).

1.1.3 Priority areas for support/problem analysis

Afghanistan's economic growth over the past two years has exceeded original low expectations, but remains inferior to the growth needed to address rising poverty and the demographic trend leading to rising population figures, resulting in even stronger needs for basic service delivery provision. This has largely been a consequence of ongoing insecurity, lack of domestic and foreign investment, and difficulties in fully exploiting the major sectors of the economy that offer major potential for job growth and revenue generation.

Afghanistan is on its path towards self-reliance in terms of - on the one hand - a reduction of aid-dependency/domestic revenue mobilisation/good governance as well as - on the other hand - sustainable inclusive growth and job creation.

In particular, by increasing resources available to the discretionary part of the budget, the SRBC will allow the National Unity Government to channel funds towards its development priorities and activities that pursue the above two central objectives of self-reliance – as outlined in the 2017-2021 Afghanistan National Peace and Development Framework (ANPDF) and associated National Priority Programmes (NPPs) - that can generate better outcomes with respect to economic development and poverty alleviation, while also being able to respond to emerging needs.

With the SBC I having supported the preparation of these policies, the SRBC II shall support this policy framework's full implementation and the consolidation of results, in line with the commitments of the Brussels Conference. These include reform of the budgetary instruments, necessary to (i) implement policies aimed at stimulating growth and reform of the business and investment climate for sustainable inclusive economic growth; (ii) sustained basic service

delivery, including the new Citizen's Charter programme, the agriculture, rural development and health programmes; promote gender equality, notably Women's Economic Empowerment and maintain social safety nets; and (iii) fight corruption with particular attention to areas vulnerable to financial leakages and those where revenue collection can be increased.

1.2 Other areas of assessment

1.2.1 Fundamental values

Respect for fundamental values remains a major concern for Afghanistan and the government faces many challenges in this fragile period of transition and nation building, compounded lately also by identity politics. Security risks have increased since the withdrawal of international troops and continued to do so throughout 2017, which also had an impact on the rule of law, democracy and human rights.

The Human Rights situation remains precarious in Afghanistan, especially with regard to women's and children's rights and the situation of human rights defenders and, to a lesser extent, the media. Gender-based violence is not sufficiently addressed; cases of torture and inhumane practices are still being reported as well as social discrimination against ethnic and religious minorities. However, steps have been taken and there is an expressed commitment of the Afghan Government to advance in promoting human rights within the country. Even though the situation of women and girls in Afghanistan remains serious, the Government has shown its commitment to improve Women's Rights. The Government is still in the process of finalising the draft Child Act. There are approximately 700 persons on death row, and lately 5 executions were carried out in November 2017. The new penal code still holds the death penalty; however, there is a decrease in the number of crimes where capital punishment applies and the code introduces punitive measures for perpetrators of torture and ill-treatment. While the Government has not signed the *Optional Protocol to the Convention against Torture*, it has adopted a new law on Combating Torture.

Parliamentary oversight is hampered by a fragmented political landscape that favours individual rent-seeking, as well as by delays in organizing elections. Electoral reform has yet to be fully implemented to complete democratic transition following the 2014 presidential elections. Although the government claims to be committed to credible, inclusive and transparent elections in 2018 (Parliamentary and District) and 2019 (Presidential and Provincial), the electoral process faces many challenges, including security constraints.

Public institutions are undermined by a lack of capacities, a legacy of impunity and corruption in areas where the state interacts with its citizens and where controls are insufficient. Corruption is an evident risk in all sectors and for all donors operating in Afghanistan with off-budget and on-budget operations. Government's international commitments to address pervasive corruption are at the core of measuring Afghanistan's progress in this regard - relating to the UN Convention against Corruption (UNCAC)¹² as well as bi-lateral or multilateral donor

¹² Afghanistan's international obligation regarding prevention and prosecution of corruption stems primarily from the UNCAC, which Afghanistan signed on 20 February 2004 and ratified on 25 August 2008. The UNCAC's Implementation Review Mechanism concluded the first review cycle related to criminalization and prosecution and reported on Afghanistan in November 2016. The second review cycle related to preventive measures is ongoing and will be reported on by mid-2018.

commitments related to anti-corruption efforts such as the IMF ECF¹³, including those stemming from successive donor conferences such as the smart SMAF 2017/18¹⁴. These Benchmarks related to prosecution and prevention of corruption have catalysed Afghanistan's anti-corruption reforms. Significant developments related to addressing corruption in 2017 and early 2018 include the adoption of the Anti-Corruption Strategy on 28 September 2018¹⁵, enactment of the new Penal Code¹⁶ and the adoption of a new Asset Declaration Law on 27 November 2017¹⁷, enhanced activities and outputs of the High Council for Rule of Law and Anti-Corruption¹⁸, and the Anti-Corruption and Justice Centre (ACJC)'s accelerated work and increased ability to process corruption cases. Despite continuing challenges to achieve sustainability, Afghanistan's civil society is able to constructively contribute to the Government's anti-corruption efforts due to its expertise and solid organization. Throughout 2017, the Government reached out to benefit from the civil society's expertise and took steps to formalize the role of civil society.

However, Afghanistan is listed on 177 out of 180 on Transparency International's (TI) 2017 Corruption Perception Index¹⁹ and no progress in curbing corruption was made in key institutions, such as Parliament. While the National Justice and Judicial Reform Plan of 2016

¹³ Under the IMF Structural Benchmarks for 2017 Afghanistan had to improve its legislation criminalizing corruption offences and deliver on reforming the legal framework on asset declaration and its implementation.

¹⁴ 2017/2018 SMART deliverable of the Self-Reliance through Mutual Accountability Framework (SMAF): „Anti-corruption strategy for the whole of government drafted and endorsed by the High Council on Rule of Law and Anti-corruption in the first half of 2017 and implementation initiated in the second half of 2017. Five revenue generating ministries publicly report on implementation progress of their anti-corruption action plans in 2017.“

¹⁵ The adoption of the Anti-Corruption Strategy is an important signal of the Government's commitment to curb corruption. However, due to the Strategy's limited temporal scope its impact is likely to be marginal and measures for a seamless transition to a longer-term comprehensive Strategy should be designed already now in parallel to the Strategy's implementation. The Strategy's implementation has been delayed. Its review mechanisms can be used to rectify omissions in the Strategy, in particular to bring further clarification about the institutional framework.

¹⁶ The most notable achievement to enable the prosecution of corruption offences is the adoption of a new Penal Code, a milestone in the country's criminal justice reform as the first single comprehensive codification of Afghanistan's criminal law. The drafting of the Penal Code started in 2012 under the leadership of the Ministry of Justice (MoJ) and with expert support of the Criminal Law Reform Working Group (CLRWG). The work was guided by the Presidential Order of 2010 to compile all penal provisions in a single criminal codification. The Penal Code was endorsed by Presidential Decree on 5 March 2017, published in the Official Gazette of 15 May and entered into force on 14 February 2018. It will apply to criminal acts committed after this date. For crimes committed prior, the former criminal laws will apply with the exception of more lenient sentencing provisions in the new penal code.

¹⁷ The new Law on Declaration and Registration of Assets of State Officials and Employees addresses shortcomings of the previous legislation and moves the asset registration function to a newly established entity within the Office of Administration on Registration and Assessment of Assets under the Office of the President for Administrative Affairs. The Asset Declaration Law develops obligations of public officials to declare assets under Article 154 of the Constitution further. The ability to successfully investigate, prosecute and adjudicate corruption offences following international standards and norms hinges on the effectiveness and the integrity of a country's justice sector.

¹⁸ In 2017, the High Council became the motor for advancing anti-corruption reforms. The President's personal dedication to using the High Council for promoting reforms is commendable. Continued attention is required to ensure that the High Council upholds judicial independence. The experience of the increased activities of the High Council should be used to amend and improve the High Council's regulative framework.

¹⁹ Transparency International Corruption Perception Index of 2017: the CPI score remained at 15 points compared to the CPI 2016, however Afghanistan's rank decreased to 177 from 169 in 2016.

Survey of the Afghan People of 2017: among the reasons for pessimism corruption is cited as the 4th reason after the perception that the country is moving in the wrong direction (48.8%), followed by unemployment (27.5%), corruption (14.6%), bad economy (10.4%), and bad government (8.7%), while the proportion of Afghans citing corruption has increased from 2016 by 1.6 percentage points, respectively.

remains largely un-implemented²⁰, Afghanistan's fragile security situation had a significant impact on the ability of the justice system to deliver justice. Judges, prosecutors and investigators working on sensitive corruption cases have been disproportionately affected. Special attention to security concerns for the ACJC has allowed the court to operate. Also the Independent Joint Monitoring and Evaluation Committee (MEC)²¹ continues to highlight line ministries vulnerability to corruption though yet no system has been developed to ensure that MEC's findings are satisfactorily integrated into the Government's strategic reform efforts, in particular the institutional reform plans under the Anti-Corruption Strategy.

The Government has credibly committed to address several concerns about fundamental values notably under the current smart SMAF (2017-2018): (i) electoral reform and electoral preparations, (ii) an anti-corruption strategy for the whole of Government, (iii) implementation of the UNSCR 1325 National Action Plan and (iv) the establishment of special court divisions and prosecution units dedicated to violence against women. The next Universal Periodic Review (UPR) is scheduled for 2018/2019. The annual EU – Afghanistan Human Rights Dialogue has become an effective platform for dialogue on human rights, specifically the women and children's enjoyment of human rights, access to justice, freedom of expression and treatment of socially vulnerable and/or persons with vulnerabilities.

1.2.2 Macroeconomic policy

Afghanistan, as the beneficiary of one of the world's largest aid inflows since 2002 and until 2020 (pledges amounting to USD 15.2 billion in the framework of the Brussels Conference), has maintained relative macroeconomic stability throughout the past decade and the Government continues to respect its commitments towards a stability oriented macroeconomic policy, despite the fragility and security context as well as demographic pressures from population growth and migration. In addition the implementation of stability-oriented policies

²⁰ On 27 December 2016, the Cabinet adopted the five years National Justice and Judicial Reform Plan (JSRP). It presents a general framework with five strategic goals (1) effective service delivery, (2) ensuring access to justice, (3) effectively addressing crimes including corruption, (4) enhancing the competence of the judiciary, (5) reform of laws and judicial structures and (6) awareness of citizens. On 22 June 2017, without discussion to ensure coherence of the plans, the High Council adopted the Institutional Reform Plans for the Supreme Court (SC), the Attorney General's Office (AGO), the MoJ and the Afghan Independent Bar Association (AIBA) implementing these reform plans. Such plans have not been developed and approved by the High Council for the Ministry of Interior and the Independent Commission on Oversight of the Implementation of the Constitution, which are also covered by the JSRP. The mechanism for regularly reviewing the implementation of the plans under the Cabinet's Justice and Judicial Committee, has contrary to expectations not advanced their implementation. The institutions did not report on the implementation of the plans six months after their adoption.

²¹ Throughout 2017 and 2018, MEC contributed to anti-corruption reforms with its ministry-wide vulnerability to corruption assessments (MVCA) and vulnerability to corruption assessments (VCA) which include concrete recommendations on improvements. Assessments were frequently presented and discussed in High Council meetings. However, no system has been developed to ensure that MEC's findings are satisfactorily integrated into the NUG's strategic reform efforts, in particular the institutional reform plans under the Anti-Corruption Strategy. Since its establishment, the MEC has issued a total of 789 recommendations. In 2017, it published one ministry-wide MVCA report and two VCA reports, one special report and five follow-up reports. The MEC also reviewed six ministries' anti-corruption plans. In its 2018 work plan, the MEC intends to carry out four VCA's, among them on Parliament and the Electoral Commission and three MVCA's including on the Ministry of Interior and Ministry of Mines. Delivering on its mandate to monitor corruption issues arising in aid provided by the international community, the MEC has so far issued two reports and is currently reviewing the UNDP administered Law and Order Trust Fund for Afghanistan (LOTFA). In October 2017, MEC presented results of its inquiry into the Comprehensive Agriculture and Rural Development Facility (CARD-F) Program which is funded off-budget by the UK Department for International Development (DFID) and the Danish International Development Agency (DANIDA).

is carefully monitored by the IMF through the USD 45 Million three-year Extended Credit Facility (ECF) approved on 20 July 2016 by the IMF Executive Board with 2 positive reviews in May and December 2017; for which all quantitative performance criteria and indicative targets were met. Prudent monetary and fiscal policy succeeded in controlling inflation and depreciation, mainly vs USD. The fiscal stance has been broadly consistent with the agreed IMF ECF framework. The FY 1396/2017 budget represented the first year of implementation of the five year Afghanistan National Peace and Development Framework (ANPDF) and the national budget for the FY1397/2018 has been approved mid-January 2018. Despite its limited fiscal space, it is becoming more responsive to ANPDF and NPP priorities while putting a focus on reforms towards increased self-reliance.

The ANPDF stipulates the Government's objective of growing domestic revenue by up to 12 percent annually, with the overarching goal of having domestic revenues account for 14 percent of the GDP by 2020. Reforms implemented in the course of 2016 and 2017 suggest that the Government is progressing towards their self-set objective. Sustained rapid revenue growth in coming years will only be possible with stronger economic revival and more effective revenue measures that widen and deepen the tax base.

However, the Afghan economy continues to be affected by on-going conflict and political instability. After rapid growth for more than a decade (9.4% for the period 2003-2012), real GDP growth slowed to 2.1 % in the period 2013-2016, following the departure of most NATO troops at the end of 2014, compounded with reduced aid and weak investor confidence. Growth in 2016 increased to 2.2%, up from 1.1% in 2015, principally due to strong growth of the agriculture sector. For 2017, World Bank (WB) projections suggest GDP growth of 2.6%. With an average annual population growth rate of at the most positive projection 3% and an estimated 400.000 Afghans entering the labour market each year, demographic pressures are mounting, resulting in turn in a declining GDP per capita from USD 633 in 2014 to USD 590 in 2016 and USD 607 in 2017. As a result of the reduced economic growth and the deteriorating security situation the poverty rate increased to 39.1% in 2013-14 up from 36% in 2011-2012. Preliminary figures for 2016-2017 suggest a further detrimental poverty rate increase.

Macroeconomic stabilization policies continue to be seen as overall conducive towards investments in extractives, agri-business and connectivity/logistics, which are considered the three key areas for Afghan economic development and growth. The economic potential in commodity sectors can be compounded by the service sectors that can develop around them. For this to happen, the pre-conditions are: (i) an improvement in the business environment as outlined in the World Bank's Ease of Doing Business Index²² and (ii) continued reforms, macroeconomic stability and manageable debt. But this can only be attained if political leaders adopt significantly more growth-focused political and economic reforms, for which the set-up of the inter-ministerial executive committee on private sector development (PriSec) in 2017 confirms the Government's commitment. But awaiting the implementation of actual reforms, prospects of economic recovery in the short-term are judged to be dim. Also, the current resource envelope is inadequate to fully finance the Government's investment ambitions as

²² As of 2017, Afghanistan ranks 183th country of 190 on the World Bank Ease of Doing Business Index.

outlined in the ANPDF and priorities will need to be determined as well as financing from non-traditional donors and private sector investors crowded in.

Nonetheless, the macro-fiscal policy framework remains robust and the WB and the IMF judge it to be adequate to continue with their respective programmes.

1.2.3 Public Financial Management (PFM)

The Public Expenditure and Financial Accountability (PEFA) assessment 2017, following new PEFA guidelines, is in the process of finalization and is expected for March 2018. This new assessment of the country's PFM performance for the Financial Years 2014-2016 is expected to show a decrease in scores for some dimensions, in comparison to the PEFA 2013. The PFM reform initiated in mid-2016 that started showing effect from the FY2017 onwards and the PEFA 2017 will be a strong and commonly agreed baseline to assess the impact of PFM reforms. As elaborated in the EU Delegation's 2017 PFM annual monitoring report, Afghanistan continues to make satisfactory progress in the implementation of its public financial management reforms with the implementation of the Five-Year Fiscal Improvement Plan (FPIP 2016-2020, with baselines to be revised on the basis of the PEFA 2017); even if challenges persist and need to be addressed (with the support of the EU through a dedicated PFM reform programme as part of the Annual Action Programme (AAP) 2017. The FPIP is a Government owned and driven long term program that benefits from strong endorsement from the National Unity Government and in particular President Ghani ensuring its implementation.

Development partners, civil society and international financial institutions (WB, IMF) have commended the Ministry of Finance on steering and accelerating a wide range of PFM reforms to improve sound management of public finances, reduce fiduciary risks, improve policy-based budgeting, increase fiscal transparency and accountability, reinvigorated with the FPIP reform process. The positive direction of change initiated since mid-2016 is starting to show progress for the FYs 2017 and 2018 in terms of improved PFM performance, amongst others in budget preparation, revenue collection, budget execution and procurement. The Ministry of Finance has played an instrumental role in instating development partners' confidence in the use of PFM systems with the development and implementation of the Five-Year-Fiscal Improvement Plan in 2016. The completion of the first full performance cycle in 2016 suggests that the approach is beginning to work with teams across the Ministry of Finance and two partner agencies, notably the Supreme Audit Office and National Procurement Agency. With the successful start of the implementation of the FPIP reform programme negative developments were limited. Progress, however, has remained below Government's own ambitious FPIP annual plan expectations in many areas of PFM reform in 2016. The key challenge remained the budget preparation process that started to be addressed as of the national budget FY1397. However, concerns still exist as to the limited success of these PFM reform gains in translating into markedly improved service delivery to the population with corruption remaining an impediment in this regard. The Auditor General's report for FY1394/2015, submitted to the legislative within the statutory deadline, indicates improved compliance with PFM regulations and increased levels of accountability compared to FY1393/2014.

The challenges outlined above will need to be addressed in the coming years of FPIP implementation (aligned with the findings from the PEFA 2017) with the support of the WB

ARTF. However, the promising PFM reform programme has the potential to ensure a multiannual budget cycle; to allow for the national budget to be used as a reliable policy financing tool; to rationalize and consolidate budget mechanisms and budget spending. The current reform drive, endorsed by the highest levels of Government, represents an opportunity for fast transversal improvements in the management of public financial resources.

1.2.4 Transparency and oversight of the budget

Eight key budgetary documents are publicly available, including a Citizen's Budget and publication of an audit report on budgetary execution, in a timeframe consistent with international standards and according to the delays specified by legislation. The latest available PEFA 2013 (awaiting new PEFA 2017 to be released during the first half of 2018) and Open Budget Index (OBI 2016) results also provide for a relatively positive picture with regards to public disclosure.

However, challenges persist with the quality of budget documents and there is room to improve the scope, nature and follow-up of external audit. Despite the exhaustive disclosure of budgetary information on the website of the Ministry of Finance, the national budget FY1397/2018 with its consolidated budget statement makes a first attempt at a reform towards ensuring the comparability of actual budget outcomes at the end of the year to budget projections at the start of the year.

It also becomes all the more important to strengthen the institutions charged with oversight and scrutiny of the budget. In the framework of the policy dialogue these persisting challenges shall be addressed. While the Supreme Audit Office (SAO) benefits from full discretion to undertake audits as it sees fit, it continues to be provided with insufficient resources to fulfil its mandate, and the head of the institution can be removed without legislative or judicial approval, which undermines its independence. SAO is currently working on a Citizen Audit report.

The Parliamentary Budget and Finance Committees are equally affected by severe human resource constraints (no Tashkeel staff to date but only temporary project staff funded by development assistance until 2018) that result in compromised oversight and scrutiny of the budget.

In terms of Civil Society involvement, 2016 and 2017 both saw the organisation of specific Civil Society Workshops, extension of invitations for budget hearings and budget execution meetings to Civil Society representatives. However, the recent OBI of 2017 states that Afghanistan provides few opportunities for the public to engage in the budget process.

Furthermore, the Government recently engaged in another important transparency initiative in 2017, the Open Government Partnership, an international platform for domestic reformers committed to making their governments more open, accountable, and responsive to citizens.

2. RISKS AND ASSUMPTIONS

Risks	Level	Mitigating measures
Political and security Stability and effectiveness of government are hampered by internal division/external challenges or disrupted	H	Mitigated through a concerted international political and policy dialogue, as well as support for the elections. EU diplomatic engagement in peace and

by the elections foreseen in 2018 and 2019.		regional cooperation efforts. EU support to elections and election monitoring.
Migration Acceleration in inflows of refugees and the resulting pressure on budget expenditure for basic service delivery.	M	Implementation of the EU support package for migration. Specific policy dialogue with government in the context of the executive committee for the re-integration of displaced persons and refugees (DiREC).
Macroeconomic Strong vulnerabilities due to aid dependency, security and potential external shocks. Decline in donor inflows to the budget and to finance development projects leading to lower public spending, lower growth, increased unemployment, and/or exchange rate pressures.	M	Strengthen policy implementation to maintain macro stability, speed up structural reform, and improve economic governance, including stronger legislative, institutional, and regulatory frameworks, and law enforcement – with the support of EU SRBC, IMF ECF and WB DPG. Follow-up on BCA pledges.
Fiscal Policy Weak fiscal policy implementation, particularly setbacks in revenue mobilization efforts and weaknesses in expenditure and cash management.	H	Improve tax compliance, revenue mobilization, spending prioritization, and coordination between the treasury and budget departments.
Corruption / Fraud Transparency International's corruption perception index 2017 lists Afghanistan as 177 th out of 180 countries, and the National Chapter's specific survey of the Afghan People 2017 finds that 69.8% of Afghans perceive corruption as a major problem in their daily lives. Potential deviation of resources by local powerbrokers and widespread corruption at all levels of government and society remain real challenges.	H	National anti-corruption strategy (2017) and Government's strong commitment to combatting corruption. Addressed through a combination of continued support for PFM, anti-corruption institutions, civil society's oversight.
Public Finance Management PFM risks have overall been reduced through significant international support since 2003. However, weak institutional capacity persists in line ministries and at sub-national level.	M	The five-year FPIP presents a credible realistic policy with a high degree of government ownership of the reform process that is supported for implementation by the WB.
Assumptions		
The Government remains committed to pursue its ambitious reform agenda by formulating and implementing credible policies (ANPDF, SMAF, NPPs, PFM Reform); The international community remains engaged in Afghanistan and actively engaged in the reform process.		

3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

An increasing share of international development assistance is being provided *on budget* through trust funds, some of which is essentially targeted. The majority of EU support is provided on-budget²³ through direct budget support (SBC I) and these large multi-donor trust funds using country system and administered by the World Bank, the United Nations Development Programme (UNDP) and the Asian Development Bank (ADB). Together with the WB's DPGs, the EU's SBC I constitutes the first discretionary donor budget support directly on treasury, and, with the successful first disbursement in August 2017, demonstrated the viability of using budget support as an aid modality for the EU in Afghanistan despite Afghanistan's inherent overall substantial country risk, as captured in the risk management matrix of 2017.

The EU is enticing its strategic policy dialogue and mobilising political leverage to support the Government in implementing the reform agenda and deliverables agreed provided with the leverage from the SBC I - together with its Member States and in partnership with the international community .

The implementation of the SBC I, in particular with respect to the monitoring of reforms as well as eligibility criteria and variable tranche indicators, has provided valuable lessons in particular with regards to 1) *regular reform monitoring and reinforced policy dialogue* on development policy/PFM and budget reform/macro-economic stability/variable tranche indicators whereby the policy dialogue is recognized as the real added value of the budget support modality; 2) *operational aspects* relating to the need to align reporting delays and future disbursements with the Afghan Financial Year; to provide technical expertise and support for the achievement of jointly-agreed reform objectives, for Government reporting and the preparation of disbursement files; 3) *coordination among budget support operations* in particular with the WB ARTF Incentive Programme on indicators and results frameworks ; 4) *outreach to EU Member States* to reinforce ownership; 5) as well as the *involvement of Civil Society*. The SRBC II will therefore reinforce the policy dialogue using established fora and the opportunities provided by the 2017 Cooperation Agreement on Partnership and Development (CAPD) between the EU and Afghanistan; align its target and disbursement delays to the Afghan FY and partners' incentive/budget support programmes (IMF and WB); increase coordination of indicators notably through the Government-led PACT platform and streamline reporting requirements; provide complementary short-term technical assistance and further increase the involvement of CSO.

The proposed SRBC II incorporates also lessons learned from all programmes managed by the European Union in Afghanistan - budget support, in direct and indirect management – and in particular from the EU incentive programmes (SMAF incentive programme AAP2015) and the donor community, in Afghanistan and other countries. It shall equally be closely aligned to

²³ In view of the EU's pledge to increase on-budget assistance since the London Conference of 2010 (commitment for 50% on-budget ODA) and subsequent SMAF commitments, for the period 2015-2017 the share of on-budget disbursement of ODA amounts to 72%. This increase is due to increased engagement with the two trust funds supported by the EU (LOTFA and ARTF) as well as the launch of the EU's direct budget support with the State Building Contract in 2017.

parallel EU incentive programmes on migration and the Attorney General (AAP 2017) which aim at tackling the challenges of returnee integration and corruption in a complementary manner.

3.2 Complementarity, synergy and donor coordination

The EU participates actively in the 5+3 donor group (EU, Germany, Japan, United Kingdom, United States plus Australia, Canada and the Nordics+) which steers the high level policy dialogue with the government and technical level coordination (inter-ministerial Development Councils and Executive Commitments). At sector level, the EU is an active development partner in its MIP-MTR focal sectors of (i) Peace, Stability and Democracy, (ii) Sustainable Growth and Jobs and (iii) Basic Social Services. On the basis of the EU Strategy 2017, EU activities are closely coordinated with EU Member State interventions.

The main vehicles for policy dialogue between donors and the Afghan Government will remain these established mechanisms as well as the SBC Steering Group for eligibility criteria and operational monitoring. In addition, the Government has set up in late 2017 the PACT platform for the management of major budget support operations such as the ARTF Incentive Programme and the EU State Building Contracts in the Ministry of Finance – located with the Deputy Minister of Policy and the Deputy Minister of Finance – that coordinates budget support operations, ensures alignment and complementarity of indicators, and coordinates reporting and monitoring. The PACT platform together with the close collaboration established with the WB and the IMF are essential for the policy dialogue and monitoring of variable tranche indicators and eligibility criteria. Both World Bank and IMF are supportive of the SBC instrument and consider the PFM systems as providing sufficient guarantees. The existing level of coordination and dialogue is the very foundation for a successful budget support operation and the SBC remains aligned with existing policy dialogue mechanisms in coordination with partners.

To complement the SBC I in terms of alleviating fiduciary risk, the EU supports the implementation of the Government-owned PFM reform programme (Fiscal Performance Improvement Plan FPIP) through an ARTF cross-sector programme (AAP2017). The present action nonetheless foresees a complementary measure (technical assistance) to support reform implementation and the assessment of the variable tranche indicators, as well as support to the national statistics system to evaluate the medium-term results.

3.3 Cross-cutting issues

EU interventions in all development sectors take into account the specific context of vulnerability in Afghanistan, marked by potential shocks and crises, reinforcing the humanitarian-development nexus and contributing to improved resilience of the Afghan society and communities, in particular the most vulnerable ones.

Gender is a key priority of the EU and the wider international community in its policy dialogue and engagement with the Afghan Government. It is prominently included in the SMAF and the government's development strategy will be judged to a large degree on how it mainstreamed gender in government activities in addition to dedicated strategies such as the National Women Economic Empowerment Programme. The assessment of the SRBC II eligibility criteria will

be informed by deliverables within the EU – Afghanistan Human Rights Dialogue, progress in implementing UNSCR 1325, and the elimination of violence against women.

Furthermore, Afghanistan shall be supported through this SRBC II - complementary to the EU's specific programmes on migration -- in meeting its migration/returnees/displacement challenges by approaching migration and mobility in their humanitarian as much as their development aspects, addressing root causes and leading to long-term reintegration of returnees.

In addition, the existing policy dialogue mechanisms and frameworks to which the SRBC II will be contributing and which will inform disbursement decisions include democratic principles, human rights, sustainable and equitable growth, the fight against corruption and enabling conditions to stem irregular migration.

4. DESCRIPTION OF THE ACTION

4.1 Objectives and results

In continuation of the State Building Contract I (2016-2018), the objective of the SRBC II is to consolidate early gains and continue supporting Afghanistan in its declared objective of transition towards self-reliance. Afghanistan is in a fragile phase of its transition process - with a deteriorating security situation, the perceived lack of progress in the population and upcoming Parliamentary and Presidential elections – and there persists the need to consolidate political and economic progress. Consistent with the EU Strategy for Afghanistan of 2017 and the mid-term review of the Multi Annual Indicative Programme (MTR MIP), the SRBC II will focus on strengthening the efficiency and legitimacy of the State across all sectors by supporting sustainable inclusive growth and job creation, improvements domestic revenue mobilisation, basic service delivery, public sector reform, improved public financial management, anti-corruption, and gender equality. The SRBC II provides a complementary tool to existing international support mechanisms and strengthens policy dialogue with the Afghan Government on mutually agreed objectives. Furthermore, the SRBC II will allow for an increase in budgetary flexibility to implement government policy in priority areas and shall contribute to preparing the line ministries for a possible future sector budget support approach.

The **overall objective** is that Afghanistan experiences greater security and stability, as well as sustainable and inclusive growth and job creation.

The **specific objectives** are (i) improved confidence of the population in the performance of Government, in particular as regards the budget process and public finance management, good governance and anti-corruption, and service provision; (ii) increased use of services and good provided by the public sector; (iii) a positive response of economic actors in terms of increased business confidence and private sector investment deriving from more effective macroeconomic and regulatory policies; (iv) improved competitiveness of the economy with an improved labour market;

The expected results in terms of **direct outputs** are:

1. Increased size and share of external assistance funds made available through the national budget;
2. Increased size and share of budget available for discretionary spending in line with Government priorities as set out in the government's development strategy;
3. Increased predictability of the disbursement of external funds;
4. External assistance as a whole (including budget support), better harmonised and aligned to government systems and policies;
5. Reduced transaction costs of providing aid;

The expected results in terms of **induced outputs** are:

1. Improved macroeconomic and budget management ,such as fiscal and revenue, monetary, economic growth and trade policies;
2. Increased quantity and quality of goods and services provided by the public sector;
3. Strengthened PFM and procurement systems (transparency, fiscal discipline, oversight, allocative and operational efficiency);
4. Improved public policy formulation and policy execution (ANPDF and NPPs, labour market governance);
5. Strengthened public sector institutions;
6. Strengthened links between the Government and oversight bodies in terms of policy formulation and approval, financial and non-financial accountability and budget scrutiny;
7. Improvements on governance issues such as anti-corruption and de-concentration;

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of Sustainable Development (SDG) Goal #8 of *promoting inclusive and sustainable economic growth, employment and decent work for all*; but it also promotes progress towards Goals # 1 *End poverty in all its forms everywhere*; #3 *Ensure healthy lives and promote well-being for all at all ages*; #4 *Ensure inclusive and quality education for all and promote lifelong learning*; #5 *Achieve gender equality and empower all women and girls*; # 6 *Ensure access to water and sanitation for all*; #16: *Peace, justice and strong institutions*; # 17 *Partnerships for the goals*; This does not imply a commitment by Afghanistan benefiting from this programme.

4.2 Main activities

4.2.1 Budget support

The main activities, as defined by the budget support guidelines and envisaged by the SBC include policy dialogue with the Afghan Government in coordination with development partners, financial transfers, performance assessments in relation to the general and specific

conditions, and coordination with other complementary measures in support of the SBC objectives in reducing associated risks.

4.2.2 Complementary support

Complementary to the budget support component, the action will support the Government's capacities to implement this State and Resilience Building Contract and support the Government's development policy development and implementation in the areas of the EU's Multi-Annual Indicative Programme with the following indicative activities:

- Provision of demand-based technical cooperation in the areas of EU's focal cooperation and towards implementation of this SRBC;
- Support for studies, organisation of training sessions, conferences, seminars, workshops, study tours for governmental and non-governmental actors;
- Support for assessments and feasibility studies;
- Support to policy analysis, dialogue and coordination;
- Support to the development of the national statistics system, focusing on areas relevant to the budget support operation, including government's capacity in data collection and analysis and increase information on women's access to resources;
- Support to the National Priority Programme for Women's Economic Empowerment specifically focussing on the so-called *productive components* of the Programme that aim at increasing women's access to resources, skills and support;
- Support to budgetary oversight, financial and performance monitoring and audit;
- Support to efficient communication of EU assistance;
- Support civil society organisations and citizens to increase their understanding of their role of oversight in policies, programmes and budgets.

4.3 Intervention logic

Based on the experience from the SBC I (2016-2018), this SRBC II will continue on-budget funding as part of the development aid provided to Afghanistan, the size and share of discretionary budget allocations that the Government may use to fund its development priorities, and aid predictability as well as ownership. It will furthermore strengthen development coordination and alignment on key priority policies and reduce transaction costs. The effectiveness and sustainability of the SRBC II relies on the Afghan government implementing credible reforms and increasing its own revenue efforts.

As a successor action to the SBC I (2016-2018) and acknowledging the general trend to strong incentivisation (notably in the WB Afghanistan Reconstruction Trust Fund) as well as Government's request for supporting key reforms with strong incentives, it is proposed that the SRBC II shall have a stronger variable tranche component of 50% for each of the three instalments²⁴.

²⁴ In contrast, the SBC I (2016-2018) only has a variable tranche for the second disbursement (planned for Q2 2018) that amounts to EUR 40 000 000 and represents 40% of the 2nd disbursement of EUR 100 000 000 and 20% of the overall budget support component of the action EUR 200 000 000.

The expected outputs include strengthened public financial management and a more performance oriented public sector, higher transparency and oversight, improved public policy formulation in focal areas, and more effective basic service delivery. These outputs concur in creating the enabling conditions for Small- and Medium Enterprise (SME) development and to create jobs and professional opportunities for Afghan citizens with a potential impact also on irregular migration.

Many accompanying measures are already in place and will be mutually reinforcing. The EU Delegation applies different instruments and mechanisms to assist the Afghan Government in its state building efforts, including bilateral and multilateral policy dialogue with the government; bilateral and multilateral aid programmes and close coordination with third-party aid programmes. Bilateral complementary measures include support to state budget auditing, statistical systems and civil society in monitoring public service delivery performance. In function of the lessons learnt from the SBC I, this action equally foresees a complementary package in direct management to support Government institutions in the implementation of reforms.

Policy dialogue with the international community and the Afghan Government is well established in formal and informal settings, with a high degree of institutionalization and coordination on all levels. Benefitting from the leverage of the SBC I, these structures and arrangements are providing the context and the complementary measures for the SRBC to be an effective additional instrument in the overall international engagement in Afghanistan.

In terms of an exit strategy, the provision of sector budget support in the core areas of the EU's longstanding intervention in Afghanistan, notably health and agriculture – is planned to follow after this SRBC II. Accordingly, preparatory technical assistance for sector budget support is envisaged for the duration of the SRBC II in view of finalising implementable sector policies and increasing the capacity of the concerned line ministries (PFM, procurement, contract management).

5. IMPLEMENTATION

Both in indirect and direct management, the Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures affecting the respective countries of operation²⁵.

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of where financing agreement is concluded.

²⁵ https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The total amount allocated for the budget support component is EUR 200 000 000, which will be broken down in two consecutive annual financial commitments of up to EUR 100 000 000. A first commitment of EUR 100 000 000 will be included in the Financing Agreement, one subsequent commitment of up to EUR 100 000 000 may be added by rider to the Financing Agreement, following an annual review of the contract by both parties. This annual review will enable the EU to take a decision on whether to continue the contract, if need be in an amended form, and the conditions for the next year to be validated. The total amount for this State Building and Resilience Contract takes into account the financing needs in the discretionary component of the budget and the absorption capacity of the public administration.

5.3.2 Criteria for disbursement of budget support

A) The **general conditions** for disbursement of all tranches (disbursement expected between 2019 and 2020) that shall be aligned with the Afghan Financial Year are as follows:

- Satisfactory progress in the definition and implementation of development policies, specifically the new Afghanistan National Peace and Development Framework (ANPDF) and its relevant revised National Priority Programmes (NPPs), the updated 'Self-Reliance through Mutual Accountability Framework' (SMAF) and its successor framework; and continued credibility and relevance of those or any successor strategy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management as defined in the PFM Roadmap II reform programme and the Fiscal Performance Improvement Plan (FPIP) to be informed by the PEFA assessment of 2017, including domestic revenue mobilization; and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

B) The **specific conditions** for disbursement to be used for the variable tranche (disbursement expected between 2019 and 2020) shall focus on the key areas of focus for the SRBC II, in line with the key intervention areas of the European Union in Afghanistan, as per the MIP 2014 – 2020 after the MTR in 2017, indicatively - with gender as a crosscutting objective - :

- Strengthening governance, with a focus on anti-corruption, domestic revenue mobilisation, PFM and budget reform;

- Implementation of the policy framework (ANPDF and NPPs) and the consolidation of results in the area of basic service delivery;
- Sustainable livelihoods and job creation;

The chosen performance targets and indicators to be used for the first disbursement in S1 2019 shall be set out in the SRBC II Financing Agreement while those for the second and third disbursements in respectively S1 2020 and S1 2020 shall be negotiated at a later stage and included in amendments to the Financing Agreement.

The choice of performance indicators and targets will be made in view of consistent linkage with the SMAF and its successor framework, as well as the WB ARTF Incentive Programme / IMF Extended Credit Facility and complementarity with existing EU sector performance frameworks (such as for EU support to reintegration of migrants and support to Justice Sector Reform with the Attorney General's Office). This exercise will be closely coordinated with Government and the international donor community in order to ensure coherence and prioritisation of key reforms.

In case of a significant deterioration of fundamental values, including in the context of a potential dramatic change of the security or political situation, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, or re-directed towards another implementation modality under the provision of the same general objective and budget for the action, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the EUR transfers disbursed into the national currency Afghani (AFN) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary measures

The budget support component of this action will be supported by three complementary measures:

Technical Assistance

Building on the experience from the first State Building Contract, complementary technical assistance will be made available in response to demand formulated by government. This component will support government capacities to formulate, plan and implement its development policies and to implement and monitor the State Building Contract.

Women's Economic Empowerment

This second State Building contract will put particular emphasis on the government's intention to strengthen the empowerment of women in Afghan society and is, therefore, referenced to the Women's Economic Empowerment National Priority Programme. Through a Call for Proposals, grants will be awarded for the implementation of Actions in line with the National Priority Programme for Women Economic Empowerment specifically focussing on the so-

called productive components of the Programme, that aim at increasing women's access to resources, skills and support;

Support to the National Statistics System

For the monitoring of the medium-term results of the budget support the availability of reliable national statistics is essential. Therefore, it is proposed that support shall be provided to the further development of the national statistics system, focusing on areas relevant to the budget support operation such as the national household survey and administrative data, including government's capacity in data collection and analysis and increase information on women's access to resources.

5.4.1 Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Short, medium and long term technical cooperation (5.4.1)	Services	2	S1 2019

5.4.1.1 Scope of geographical eligibility for procurement

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.4.2 Grants: call for proposals "Supporting women's economic empowerment through entrepreneurship development interventions (direct management)"

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

- The overall objective of the grants is to advance Afghan women's economic empowerment and to maximise their contribution to growth and poverty reduction. The specific objective is to promote female entrepreneurship in Afghanistan, by supporting Afghan women in developing and executing their business ideas, and women-led SMEs in expanding their existing business, through facilitated access to bundled services (inter alia, access to finance, business training, mentorship and support networks, assets transfer, etc.).
- The main activities will focus on providing targeted support that enables women to develop and execute their business ideas, or to expand their existing business, and to overcome related challenges. The actions will respond to the following priorities: a) positively

impacting women's access to the opportunities, services, and assets required to sustainably developing and executing their business ideas and/or expanding their existing businesses and; b) strengthening women's economic agency, i.e. their capacity and confidence to act on available opportunities and to influence decision-making.

- The expected results of the action are: a) Afghan women have an increased access to the opportunities, services, and assets required to sustainably developing and executing their business ideas and/or expanding their existing businesses; and b) Afghan women have strengthened their economic agency, i.e. their capacity and confidence to act on available opportunities and to influence decision-making.
- The actions will primarily target both unemployed/underemployed women and women-led SMEs (i.e. both potential female entrepreneurs and existing businesses with potential for growth) in both urban and rural areas. The actions will also target the communities where SMEs will operate and other relevant actors to ensure that the sustainability and scale of both women's businesses and the overall economic environment within which they operate are not impacted by negative practices and attitudes towards women-led SMEs.

(b) Eligibility conditions

- be legal persons and
- be a member states agency, non-governmental organisation, civil society organisation, international research organisation, university or university related organisation or an international organisation as defined by Article 156 of the Regulation (EU, Euratom) 2018/1046²⁶ and
- be established in²⁷ a Member State of the EU or an eligible nation as per Article 9 (DCI) of the Regulation (EU) 236 / 2014 (CIR). This obligation does not apply to international organisations and
- be directly responsible for the preparation and management of the action with the co-applicant(s) and affiliated entity(ies), not acting as an intermediary and
- be operational in Afghanistan at the moment of the launch of the call for proposals.

Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 5,000,000 and the grants may be awarded to sole beneficiaries

²⁶ International organisations are international public-sector organisations set up by intergovernmental agreements as well as specialised agencies set up by them; the International Committee of the Red Cross (ICRC) and the International Federation of National Red Cross and Red Crescent Societies, European Investment Bank (EIB) and European Investment Fund (EIF) are also recognised as international organisations.

²⁷ To be determined on the basis of the organisation's statutes which should demonstrate that it has been established by an instrument governed by the national law of the country concerned. In this respect, any legal entity whose statutes have been established in another country cannot be considered an eligible local organisation, even if the statutes are registered locally or a "Memorandum of Understanding" has been concluded.

and to consortia of beneficiaries (coordinator and co-beneficiaries). The indicative duration of the grant (its implementation period) is 48 months.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80% of the eligible costs of the action.

If full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call

Second trimester of 2019

5.4.3 Indirect management with an international organisation

One component of this action with the specific objective of supporting the national statistics system is proposed to be implemented in indirect management with the World Bank. This implementation is justified because the World Bank has long standing experience in implementing development aid in Afghanistan and in particular more than 10 year successful experience with reform of the national statistic system. Moreover it allows for a coordination framework with the government and donors not only for the present action but also for monitoring the impact of ODA in Afghanistan.

The entrusted entity would carry out the following budget implementation tasks: launch calls for tenders and for proposals; define eligibility, selection and award criteria; evaluate tenders and proposals; award grants, contracts and financial instruments; act as contracting authority concluding and managing contracts, carrying out payments.

For the budget implementation tasks not yet assessed, the entrusted international organisation is currently undergoing ex-ante assessment. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with budget-implementation tasks under indirect management. If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in section 5.3.2.

5.4.4 Changes from indirect to direct management mode due to exceptional circumstances

The alternative implementation modality in direct management would be 5.4.1 technical assistance through procurement that can replace indirect management where this preferred modality cannot be implemented due to circumstances outside of the Commission's control.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, (amount in USD)
5.3. Budget support - State Building and Resilience Contract	197 500 000 000	N.A.
5.4.1. Complementary measure – Technical Assistance		
Procurement (direct management)	1 999 371	N.A.
5.4.2. Complementary measure - Women's Economic Empowerment		
Grants (direct management)	5 000 000	N.A.
Total	204 499 371	

5.6 Organisational set-up and responsibilities

The SBC Steering Group, established in 2016 (under the SBC I), will continue to oversee the implementation of the action. The SBC Steering Groups at high level (Minister / Ambassador) and at technical level, which are both co-chaired by the EUD and the Ministry of Finance, will remain the forum for regular bilateral exchange between Government and the EUD about the progress, challenges and any possible issues and obstacles in the implementation of the SRBC.

Final decisions concerning the disbursement of general and variable tranches will be taken by the EU, based on a review of the information provided and progress made, and as discussed by the Budget Support Steering Committee.

The bilateral policy dialogue between EU and government will be integrated in the wider coordination mechanism established by government for its budget support partners in 2017, notably the PACT platform that coordinates and monitors reform commitments that are anchored in multi- or bilateral policy-based programs (PBP's) and are managed by the Ministry of Finance (MoF). The new PACT platform aims at improving MoF's governance of policy based programmes (PBP) and ultimately their performance, enhancing Government ownership, as well as improving Government-Donor coordination and alignment across PBR's and Government strategies.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partners' responsibilities. To this aim, the

implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate annual progress reports and a final report.

Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators which will be part of the financing agreement. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

5.8 Evaluation

Evaluations and audit arrangements are an integral part of the contractual modalities. An external evaluation (ex-post) may be conducted by independent consultants recruited directly by the Delegation in accordance with EU rules and procedures on specifically established terms of reference. Funding will be provided from support measures if needed.

The Commission shall inform the implementing partner at least 3 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements of the complementary measures of this action.

In order to strengthen the Supreme Audit Office (SAO) in Afghanistan, specific audits on non-ring-fenced budget expenditures could be foreseen for the fiscal years of 2018 to 2022, conducted by the SAO with possible additional support made available under other relevant decisions.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

APPENDIX - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	1. Afghanistan experiences greater security and stability, as well as sustainable and inclusive growth and job creation.	1.1 GDP inclusive economic growth ** L1(3)	2.6% est (2017)	> 3% (2021)	MoF/IMF
		1.2. Poverty Headcount Ratio ** L1(1)	41% (2016/17)	> 41% (2021)	National household survey
		1.3. Key SDG-related development outcome indicators : health (% births attended by skilled health personnel), ** L2 (18)	53.4%	> 53.4%	National household survey
		education (youth literacy rate) ** L1 (15),	53.6%	> 53.6%	
		electricity (population access) ** L1(11),	97.7%	> 97.7%	
		water (population using safely-managed drinking water) ** L1 (22)	36%	> 36%	
Specific objectives : Outcome(s)	2.1 Improved confidence of the population in the performance of the Government in particular as regards governance (anti-corruption and accountability), PFM, and service delivery	sanitation (population using safely-managed sanitation services) ** L1 (25) (sex-disaggregated)	41.4%; (2016/17)	>41.4%; (2021)	
		2.1. 2 Corruption perception index	TI 2017: 177 th rank - 15 points	<177 th rank	TI Corruption Perception Index Survey of the Afghan People WB Governance Effectiveness indicator
		2.1.2 public perception of the national Government	SAP 2017: 56.2% NUG confidence	> 56.2% confidence	
	2.2. Improved access to and use of services and goods provided by the public sector and enhanced resulting benefits (attentive to gender equality)	2.1.3 governance indicator ** L1(5)	WB GE 2016: 1.22	<1.22 (2021)	
		2.2.1 net school attendance primary education, secondary education, tertiary education (sex-disaggregated);	56.1%, 35.7%, 9.7% (2016/2017)	> 56.1%, 35.7%, 9.7% (2021)	National household survey
		2.2.2 health – ante-natal care coverage (sex-disaggregated) 1 visit, 4 visits;	70%, 16.3% (2016/2017)	> 70%, 16.3% (2021)	National household survey
	2.3 Improved self-reliance (domestic revenue mobilisation) and a coherent policy framework	2.3.1 Domestic revenue in percent of GDP ** L1 (13);	10.7% (2017 projection)	> 10.7% (2021)	IMF art IV reports / Government reports
		2.3.2 status reports on the policy framework (ANPDF, NPPs).	Partially completed, implementation started.	Positive trend (2021)	
	2.4 Improved competitiveness of the economy with an improved labour market	2.4.1 Competitiveness indicators	GCI 2017: not ranked	Inclusion in the GCI ranking	Global Competitiveness Index (WEF) National labour market and national household surveys
		2.4.2 Labour force participation rate / Employment-to-population ratio / Underemployment rate as percentage of the labour force) (sex-disaggregated)	53.9% / 41% / 23.90% (2016/17)	>53.9% / < 41% / <23.90% (2021)	
		2.5.1 Ease of Doing Business Indicators,	183 rd rank DBI 2017	<183th rank	

	2.5 Increased business confidence and private sector investment and production	2.5.2 new firm registrations 2.5.3 ACCI business sentiment	1500 (first half of 2017) -5 (Q2 2017)	> 1500 >-5	Government reports ACCI reports
Induced outputs	3.1 Strengthened PFM and procurement systems (transparency, fiscal discipline, oversight, allocative and operational efficiency);	3.1.1 FPIP annual assessments – achievement of performance targets (league table of agency scores) 3.1.2 relevant PEFA (pillar II, VI, VII) 3.1.3 OBI indicators 3.1.4 public availability of key budgetary documents	1 A, 8 B ,4 C+, 4Cs, 1 D+ (2016) average score per pillar D, C, C (PEFA 2017); 49 points (OBS 2017); 7 out of eight budget documents available (2017)	Positive trend (2021) Positive trend (2021) > 49 points (2021) 8 documents (2021)	FPIP annual performance reports PEFA OBS MoF
	3.2 Improved macroeconomic and budget management such as fiscal and domestic revenue mobilisation, monetary, economic growth and trade policies;	3.2.1 Domestic Revenue as part of Overall Revenue; 3.2.2 real inflation, real exchange rate AFN/USD / external reserves of DAB 3.2.3 Current account balance excl grants 3.2.4 Level of EITI compliance	~40% (2016) 5.7% / 67.9, USD / 7,541 million (2017) -30.8% (2017) 5 th EITI reconciliation report	IMF Revenue target (2021) IMF performance criteria (2021) > -30.8 % EITI membership	IMF art IV / ECF reports IMF art IV / ECF reports IMF art IV / ECF reports EITI
	3.3 Increased quantity and quality of goods and services provided by the public sector;	3.3 Level of implementation of Citizen Charter – service standard grants / urban block grants administered to numbers of communities/CDCs	Launch of the CC in 3,300 rural and urban communities (2017)	Grants administered to 12,000 rural communities in 34 provinces and 850 urban CDCs and 170 Gozar Assemblies in four major cities	CC progress reports (WB/Gov)
	3.4 Improved public policy formulation and policy execution (ANPDF and NPPs, labour market governance);	3.4 Status of policy formulation and implementation	4 NPPs in implementation; 3 NPPs being finalized, 4 NPPs being developed, lack of labour market governance (2018)	Positive trend (2021)	Government status reports
	3.5 More effective and accountable public sector institutions with an improved gender balance;	3.5.1. Number of merit-based appointments (CBR positions / merit-based appointed positions; sex-disaggregated)	727 (2018)	All newly recruited civil servants (2021)	CBR / TAGHIR / IARCSC Reports
	3.6 Strengthened links between the Government and oversight bodies in terms of policy formulation and approval, financial and non-financial accountability and budget scrutiny;	3.6.1 Score on legislative scrutiny of audit reports and follow-up on audit recommendations – PEFA PI 30.2 and PI30.3	A, B (2017)	A PEFA scores (2021)	PEFA and SAO progress reports
	3.7 Improvements on governance issues such as anti-corruption and de-concentration	3.7.1 Progress on the implementation of the government anti-corruption strategy and line-ministries implementation plans 3.7.2 Progress on the formulation of the subnational governance policy and progress towards its implementation including fiscal de-concentration	Limited progress (2017) Limited progress (2017)	Positive trend (2021) Positive trend (2021)	UNAMA annual anti-corruption report Government progress report and FPIP report

Direct outputs	4.1 Increased size and share of external assistance funds made available through the national budget;	4.1 on-budget ODA	Increase by 6% on 2016 levels (2017)	> 50% on-budget ODA (2021)	SMAF progress report MoF Budget
	4.2 Increased size and share of budget available for discretionary spending in line with Government priorities as set out in the government's development strategy;	4.2 Discretionary development budget as part of national budget	AFN 52bn (2018)	Positive trend (2021)	ODA reporting
	4.3 Increased predictability of the disbursement of external funds;	4.3 ratio of ODA disbursed to ODA committed	Not available	Data available (2019) and positive trend (2021)	ODA reporting
	4.4 External assistance as a whole (including budget support) better harmonised and aligned to government systems and policies;	4.4 Alignment to ANPDF / NPP / SMAF priorities	>80%	Positive trend (2021)	SMAF progress report
	4.5 Reduced transaction costs of providing aid;	4.5.1 PIUs/PMUs in line ministries and agencies;	Not available	Data available on PIUs/PMUs (2019) and positive trend towards their reduction (2021) Unified reporting mechanism established and used by donors (2021)	SMAF progress report
		4.5.2 unified reports on structural reform implementation and sector progress;	Not available		Government reports