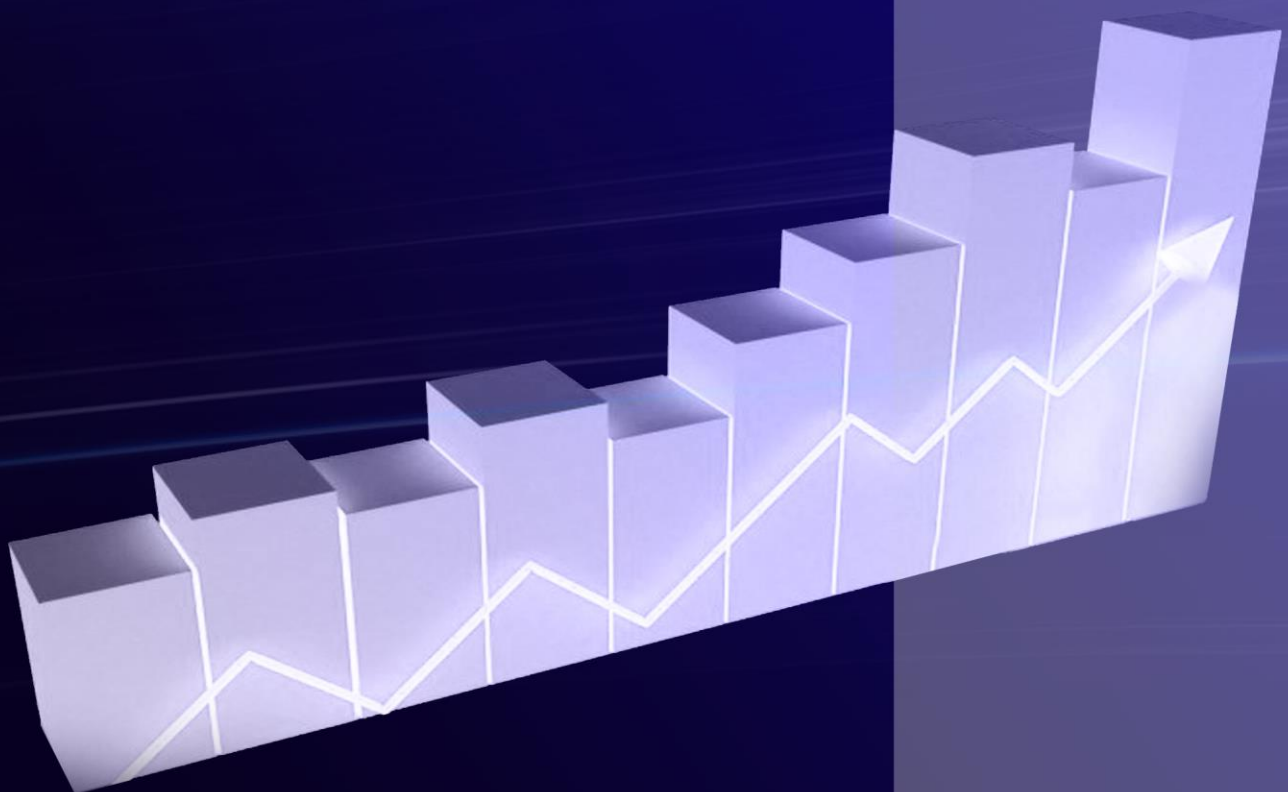




INDEPENDENT REVIEW OF AFGHANISTAN 1393 NATIONAL BUDGET



ABBREVIATIONS

ANDS	Afghanistan National Development Strategy
ACTA	Afghan Coalition for Transparency and Accountability
ANSF	Afghan National Security Forces
BD	Budget Department
CEDAW	Convention for Elimination of Discrimination Against Women
EPD	EQUALTY for Peace and Democracy
FS	Fragile States
FY	Financial Year
GRB	Gender Responsive Budgeting
IBP	International Budget Partnership
IARCSC	Independent Administrative Reform and Civil Service Commission
IMF	International Monetary Fund
JCMB	Joint Coordination and Monitoring Board
LIC	Low Income Countries
LM	Line Ministries
NB	National Budget
MDGs	Millennium Development Goals
MoE	Ministry of Education
MoF	Ministry of Finance
MoLSAMD	Ministry of Labor, Social Affairs, Martyrs and Disabled
MoPH	Ministry of Public Health
NPP	National Priority Program
OBI	Open Budget Index
O&M	Operation & Maintenance
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMEL	Public Finance Management and Expenditure Law
PFMR	Public Finance Management Reform
SOM	Senior Officials Meeting
TMAF	Tokyo Mutual Accountability Framework
WB	World Bank

ACRONYMS

Ordinary Budget:	Budget funding government salaries, operation and maintenance with some capital costs. Mostly funded by domestic revenue
Development Budget:	Budget funding development and investment projects mostly by donor's assistance
Core Budget:	Sum of Ordinary and Development Budget
On Budget Support:	Donors assistance channeled through Ministry of Finance
Off Budget Support:	Donors assistance channeled outside Ministry of Finance through sub-contractors
Discretionary Fund:	Donors assistance channeled through MoF with allocation authority to Government
Nondiscretionary Fund:	Donors assistance channeled through MoF earmarked for specific projects
Open Budget Index:	Survey assessing countries national budget transparency and accountability against certain set of indicators
Qatia:	Report of Government Final Accounts
Code 21	Chart of Accounts for salaries, wages and allowances of civil servants
Code 22:	Chart of Accounts for operations and maintenance
Code 25:	Chart of Accounts for development and investment

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1. INTRODUCTION

Sustainable economic development along with effective governance is a must to take Afghanistan from transition to positive transformation. National budget plays an important role in taking the society on path to economic development.

Since over three years, Afghan Coalition for Transparency and Accountability (ACTA) has been reviewing and publishing a summary of national budget along with key findings and recommendations. ACTA is a coalition of civil society organizations and community based groups as well as individuals at the national and community levels with the mission to promote transparency and accountability for public policies and resources by reviewing governance-related policies and strategies and using the national budget as one of the main advocacy tools for improving service delivery.

The aim of this report is to mainly assist with awareness-raising. We aim to present a simple and lucid review of the budget, so that people can understand the budget and what it means for their daily lives.

This review would not have been possible without various contributors; particularly a few deserve a special mention. Ministries of Public Health, Higher Education, Labor and Social Affairs and last but not the least the Budget Department of Ministry of Finance for sharing their invaluable thoughts, information and experiences. We also would like to thank Counterpart International's USAID funded Initiative to Promote Afghan Civil Society (IPACS II) program for providing financial assistance to make this Independent Review possible. We are also grateful to many civil society representatives for enriching this report by attending the consultation meetings particularly partners from Health and Education sectors.

The 1393 Budget would be critical because of the context in which it would try to shape the economic policy. There would not only be political transition with presidential and provincial council elections, but also security transition with ANSF taking over the security in Afghanistan.

The review was conducted against certain key indicators and present wide range of recommendations from the civil society perspective. Finally this report will try and provide an objective assessment of the "opportunities", "challenges" and "successes".

1. EXECUTIVE SUMMARY:

Public policy tools, such as national budget play an important role in taking the society on path to economic development. This report aims to provide an independent - civil society - review of the national budget to parliamentarians, media, civil society and to people in general. We have attempted to keep this report simple and lucid, so that a large constituency of people can understand the budget and engage in dialogue related to allocations of resources affecting their daily lives.

This paper is divided into three broad sections. The first section - “Budget at a Glance”, aims to provide a bird’s eye view of the whole 1393 budget. To add perspective we have also compared 1393 budget with 1392 budget to outline major overlaps and diversions from last year. The report then looks at revenue, allocations and expenditure in detail. It looks at domestic revenue and donor assistance as well as ordinary/operating budget and development budget in concise detail.

The second section of the report analyzes 1393 national budget against a number of key indicators to understand the progress and challenges. Main indicators outlined in this report are from Tokyo Mutual Accountability Framework, Fiscal Sustainability Beyond 2014, Reform of Public Finance Management (PFM), and Performance on PFM Road Map, Provincial Budgeting, Program Budgeting, Gender Responsive Budgeting (GRB) and Afghanistan Status on the Open Budget Index.

Finally, the third section broadly outlines role of various stakeholders in influencing the content of the budget. It provides recommendations for various stakeholders to make the budget more robust and based on people’s needs and country’s aspirations.

The 1393 National Budget is developed with broader scope for economic development of the country and mainly focuses on increasing employment opportunities, creating jobs for youth and reducing poverty. The budget is also prepared based on the National Priority Programs (NPPs), developing community based projects at the sub-national level, allocating resources in view of sustainability of National Budget in the short and long terms with particular focus on maintenance of projects.

Despite that budget documents stipulate that budget has been developed based on a set of objectives to increase revenue and economic development, yet the target for revenue set in 1391 was not met. Subsequently, the targets for 1392 and 1393 revenue were revised and lowered due to reduction in domestic revenue and wide spread corruption in collection of revenue. This together with decrease in imports, low level of new investment deals and closure of several foreign companies pose a serious threat for country’s economy and securing resources. Revenue target for 1392 was set at AFN124 billion but then decreased to AFN113 billion. Therefore, the fiscal deficit in total domestic revenue falls by 8% which primarily reflects a substantial slippage in revenue efforts.

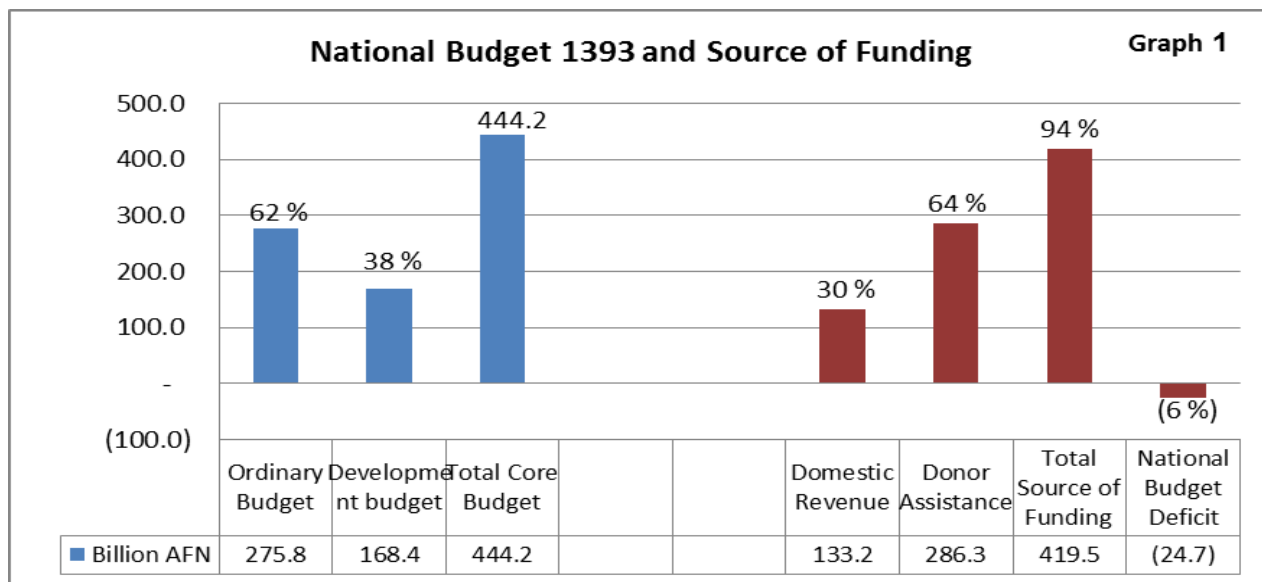
Increase in outlays of the wages especially with introduction of new law for ‘Martyrs and Disabled Compensation’ adds financial burden on the National Budget. Equally worrisome are the sharp increments in the military expenditure and gaps in financing the budget deficit, which could have adverse consequences for the country’s macroeconomic stability.

2. BUDGET AT A GLANCE

The proposed budget for FY 1393 is USD 7.932 billion (AFN 444.192 billion) which is 28% higher in comparison to 1392 budget of USD 6.697 billion (AFN 348.2 billion).

National Budget is funded by three sources, i. Domestic, ii. Donor's assistance and, iii. Loans. MoF has targeted USD 7.49 billion (AFN 419.5 billion) funding for 1393 budget, USD 2.379 billion (AFN 133.2 billion) 30% from domestic revenue and USD 5.113 billion (AFN 286.3 billion) 64% from donor's assistance. But still there is a budget deficit of USD 440 million (AFN 24.7 billion) which is 6%.

If we look at the composition of the overall 1393 budget, USD 4.925 billion (AFN 275.8 billion) 62% of the proposed national budget is allocated for Ordinary Budget and USD 3.007 (AFN 168.4 billion) 38% for development budget. It also plainly reveals two distinctions; 1393 development budget has increased by 19% and operating budget has increased by 33% in comparison to FY 1392. However, the development budget may increase or decrease after preparation of Qatia of 1392 and carry over of funds from 1392 to 1393.



Graph 1 above shows 1393's National Budget and Source of Funding

a. Estimated Resources

i. Domestic Revenues

MoF domestic revenue target (AFN 133.2 billion) is quite ambitious, not in terms of revenue generation but actually in terms of collection. MoF will be collecting 79% of the domestic revenues from taxes, 20% from non tax and about 1% from sale of assets. Domestic revenue target for 1393 budget is a big concern as the deficit of 1392 budget will also be carried over to 1393 and as a result the government might fall short of cash for the budget execution which will

automatically affect budget execution for 1393, i.e. if the ministries managed to speed up their budgets execution.

MoF had targeted USD 2.36 billion (AFN 123 billion) domestic revenue for 1392 but collection for the first nine months was quite low, thus the target was brought down to USD 2.18 Billion (AFN 114 billion). The 1393 revenue target predicts only an increase of about 8% if compared with initial target of 1392. However, if compared with revised target of 1392, there is an increase of 16%, which is still considerably low. In addition, our assessment shows that the government will not perform up to mark on its revenue collection and will not be able to achieve the set target.

Recommendations: Not meeting domestic revenue targets jeopardizes the National Budget credibility. ACTA highly recommends that MoF set realistic revenue targets, take serious actions towards combating corruption in revenue collection, and MoF has to explore more revenue generation potentials such as one time fees on registration of construction companies etc. On the other hand, there are some laws which are being drafted for generation of domestic revenue such as Mining Law, Value Added Tax (VAT) Law, Anti Money Laundering Law and Tax Administration Law, which are yet pending for approval in Parliament.

ii. Donor Assistance

In FY1393 the donor funding amounts to USD 5.112 billion (AFN 286.302 billion) which is 64% of the total core budget. Donor's share in operating budget is USD 2.682 billion (AFN 150.239 billion) which is 51% and mostly allocated for security sector. Donor's share in development budget is USD 2.49 billion (AFN 136.062 billion) which constitutes 49% of the budget.

If we compare donors commitment for 1393 in comparison with 1392 which was USD 4.144 billion (AFN 215.506 billion), we observe almost a billion dollar increase in donors funding, which forms a 23% increase and major portion of this increase is allocated for security sector's ordinary budget, besides security sector, there is also increase in non-security sectors development budget. However ministries are still not able to execute their development budgets according to the plan.

Recommendations: During the review, ACTA was pleased to notice that the budget assistance for both security and non-security sectors has increased compared to 1392. ACTA recommends that MoF should carry an assessment of line ministries including their provincial offices to evaluate their budget execution capacity and assist them in building their capacity for absorbing and executing more on budget support. It is worth mentioning that developing line ministries' capacity in absorbing and execution more on budget support is not only a task assigned to MoF, but IC plays an equal role in providing coaching, mentoring and monitoring support to accomplish the desired results.

b. Estimated Allocations for 1393

The Table 2 Below provides a snap shot of 1393 national budget distribution by sector for both ordinary and development budgets.

Table: 2

Total Core Budget for Fiscal Year 1393

NO	SECTORS	In (000) Dollars			Total %	% Ordinary Budget	% Development Budget
		Ordinary Budget	Development Budget	Total			
1	Security	3,135,400	219,464	3,354,864	42	64	7
2	Infrastructure and Natural Resources	58,448	1,077,812	1,136,260	14	1	36
3	Education	636,230	386,985	1,023,215	13	13	13
4	Agriculture and Rural Development	35,018	625,237	660,255	8	1	21
5	Health	45,093	285,016	330,110	4	1	9
6	Good Governance	232,112	93,968	326,080	4	5	3
7	Economic Development	49,772	153,730	203,502	3	1	5
8	Social Protection	43,978	21,689	65,667	1	1	1
9	Other codes including Contingency code	688,060	144,000	832,060	10	14	5
	TOTAL	4,924,110	3,007,901	7,932,012	100	100	100

As shown in table 2, security sector receives 42% of the total budget followed by infrastructure, education, agriculture & rural development sectors receiving 14%, 13% and 8% respectively. On the other hand, allocation under ordinary and development budgets for education sector decreased compared to FY 1392. Despite ACTA's concerns in the reviews of national budget for FYs 1391 and 1392, allocation for health and social protection sectors still remains low. ACTA is also concerned about the increase in allocation for contingency funds.

Recommendation: Despite that the proposed budget for FY 1393 does not stipulate an increase in health and social protection sectors' budget, but it also decreased the education sector budget compared to last year. Health and Education are the basic services provided by any legitimate government to its citizen, ACTA strongly recommends an increase on budget support for health, education and social protection sectors that could potentially improve governance and reduce gap between people and the government.

i. Ordinary/Operating Budget

The proposed ordinary budget USD 4.924 billion (AFN 275.750 billion) shows a 24% increase in comparison to the 1392 operating budget of USD 3.973 billion.

Table 2 above indicates that the highest amount of operating budget (64%) goes to security sector followed by contingency, education and rule of law which is 14%, 13% and 5% respectively. While allocation for education sector is acceptable, however, health and social protection are poorly budgeted under the proposed 1393 national budget.

Recommendation: ACTA is concerned that with the approaching timeline for transition and decline in foreign assistance, the Government will not be able to take full charge of these two sectors. ACTA recommends allocation of more resources for health and social protection sectors

The budget document for FY 1393 does not provide any information on allocation of ordinary budget at provincial level. Line ministries have open hand in distribution of ordinary budget to provinces. This poses a serious concern with regard to fair distribution of resources based on provincial needs.

Recommendations: ACTA recommends that MoF not only requires line ministries to submit distribution of their ordinary budgets by provinces, but also ensure that the allocated ordinary budgets to provinces are also executed accordingly.

ii. Development Budget

The proposed development budget for the year 1393 is USD 3.007 billion (AFN 168.5 billion), which indicates 19% increase in comparison with the 1392 development budget of USD 2.724 billion (AFN 141.6 billion).

As shown in Table No. 2 there is elevated increment in infrastructure budget, i.e. 36%, followed by agriculture, education and health, 21%, 13% and 9% respectively. On the other hand, allocation to social protection, good governance, economic development and security sectors are a mere 1%, 3%, 5% and 7% respectively.

Reduction in security sector budget is not worrisome as there may not be need for immediate construction of military infrastructure and, therefore, some of the expenditures have shifted from development budget of FY 1392 to the operating budget of FY 1393. However, ACTA is concerned on allocation of development budget to social protection sector.

MoF has allocated USD 144 million for contingency funds under the development budget, which also includes USD 33 million for 11 under developed provinces, and USD 23 million for the remaining less developed provinces. While allocating USD 33 million for less developed provinces is a very good initiative to allow provinces to include the projects of their own local priorities, however, the centralized nature of decision making, procurement and recruitment can be a potential risk for lower expenditures.

Recommendation: While allocating resources to provinces is a good gesture, however, sub national governance will not improve unless MoF and line ministries delegate certain level of planning and execution authority to provinces. Besides delegating authority to provinces ACTA also recommends that MoF and line ministries develop monitoring and evaluation mechanisms to ensure transparent and accountable execution of resources at the subnational level.

4. BUDGET REVIEW AGAINST KEY INDICATORS

To provide an objective assessment of the budget, ACTA reviewed it against certain key indicators. This section will provide an assessment of ACTA based on these parameters.

a. Tokyo Mutual Accountability Framework

Tokyo Mutual Accountability Framework as a whole aims to create an enabling environment for sustainable democracy, good governance, and economic growth. At the Tokyo Conference the Government presented its National Priority Programs (NPPs) for funding, and the international

community committed funding the NPPs based set of enduring indicators to monitor progress against their mutual commitments. In line with TMAF understandings and agreements, Senior Official Meeting (SOM) was held in Kabul in July 2013 (exactly after a year) to see the progress on the commitments by both the donors and the government. Civil Society had quite an active participation in both Tokyo Conference and Senior Official Meeting (SOM). Government commitments under TMAF have been clustered under the general themes of Representational Democracy and Equitable Elections, Governance, Rule of Law and Human Rights, Integrity of Public Finance and Commercial Banking, Government Revenues, Budget Execution and Sub-National Governance and Inclusive and Sustained Growth and Development.

While the national budget claims to have been developed based on NPPs and TMAF, not much is mentioned in the budget document in relation to the important benchmarks/indicators. The budget document also does not allocate any resources to assess and monitor the progress for MDGs as one of the indicators of TMAF.

Recommendation: Since the Interim Administration of Afghanistan, several international conferences had been held on Afghanistan inside and outside country, however, Senior Official Meeting (SOM) was the first follow up meeting arranged to evaluate progress on deliverables committed in Tokyo Conference. TMAF is the first accountability mechanism developed and agreed by both Government of Afghanistan and the International Community. It is therefore highly recommended that MoF use the NPPs as a tool for aligning government and donors resources with government priorities and continues assisting and encouraging relevant institutions for implementation of TMAF targets and reporting on the progress.

b. Fiscal Sustainability Beyond 2014

Achieving fiscal sustainability in the Afghan context is defined as domestic revenues financing operating budget. In the budget proposal of 1393 the Government has shown that by FY 1395, the domestic revenues will be sufficient to finance about 65% of the operating budget in contrast to 47% in FY 1393, but this also seems very unlikely to be achieved as previous experiences have shown that there might be normal as well as surprise additions (e.g. pressure coming from off budget to on budget without any donor financing) in the budget. This will make it very difficult in achieving this target. This gap is even bigger if total national budget is taken into account.

Revenue collection has been below projected targets due to the economic slowdown and the impact of the forthcoming 2014 security transition and widespread corruption. Despite that in the Senior Officials Meeting the decision was made to introduce specific measures to arrest the fall in revenues by sweeping changes in the senior management of Revenue and Customs departments across the country. However, this was carried out in more of a formality and reshuffling deal rather than sweeping corruption out of system.

Recommendations: Afghanistan crucially needs strategic and continuous aid tapering to allow the economy to adjust to new challenges and opportunities for growth and political reforms. It is also worth mentioning that a rapid decline in donor assistance could severely lead to macroeconomic instability in both short and long terms. In order to enhance economic growth, improve governance and make progress towards fiscal sustainability, ACTA recommends that the government has to focus on the following four recommendations:

- Promoting the transparency and cost effectiveness of natural and mineral resources with development of longer-term economic strategy that should focus on residual financing of country's financial needs.
- ACTA is concerned as regard to what ANDS has defined as the Agriculture and Rural Development sector. This rather calls separation of agriculture from rural development as two different sectors since agriculture is considered as the main tool for country's economy than what the population is involved at the rural levels. Exports in the area of agriculture especially dry fruits during 1392 attracted international market. This could potentially be seen as a driving factor encouraging foreign investment in Afghanistan from one hand while promoting the export business in the country on another hand. Thus, ACTA recommends long term and robust strategic planning to promote agriculture sector as one of the main sources of revenue and employment.
- ACTA strongly recommend that Government should take measures to alleviate the antagonistic impacts of economic slowdown on revenue during the transition that could include approval of several laws including but not limited to Value-Added Tax (VAT), Tax Administration Law, as well as organizational reform of the tax and revenue department as special measure to monitor and combat corruption and revenue embezzlement, and mitigating corruption through the continuing automation of processes in the Revenue and Customs departments. In addition, no matter how much revenue is generated, if committed and honest officials are not appointed in the relevant departments based on merits, revenue collection and reporting will never be based on the actuality. Thus, ACTA recommends that should MoF have the political will and commitment for increased revenue collection, then only reshuffling in the revenue and customs departments is not sufficient and they must focus on ensuring professional and honest individuals appointments and further reforming the departments.
- ACTA recommends establishment of Public Revenue Watch (PRW) with special focus on provinces with higher revenue.

c. Public Finance Management (PFM)

Public Finance Management Reform (PFMR) was one of the National Priority Programs (NPPs). It was one of the first NPPs endorsed by JCMB in mid 2010. It was very well received not only by the Government stakeholders but also by the international community. It served as a corner stone in the technical assistance provided by the donors in the PFM area. The PFMR focused on 3 main components:

- Strengthening the budget in driving effective delivery of key priority outcomes and improving budgetary execution
- Increase transparency and accountability
- Capacity building

Recommendation: The roadmap was designed for 3 years (Mid 2010 - Mid 2013) and as per our information there will not be any new roadmap, which is quite alarming. ACTA recommends development and implementation of second PFM roadmap to ensure good governance, effective service delivery and continuation of public financial management reform.

Afghanistan's performance with regard to **Public Expenditure and Financial Assessment (PEFA)**, if compared to the results of Fragile States (FS) and Low Income Countries (LIC) generally, is strongly positive. In most of the PEFA dimensions it scored higher than FSs and LICs, surpassing Middle Income Countries in two dimensions[1]. ACTA also notices that despite recognized challenges, Afghanistan has embarked on a path of significant public finance reform, committed to addressing capacity gaps; in doing so, it anticipates sustained support from international partners.

However, credibility of the budget is one area in which Afghanistan scores lower than an average of LICs. While fiscal discipline can be salvaged by strict cash allotments to keep commitments within the limits of cash availability, the variance to budget both in the aggregate revenue and expenditures is not conducive to fiscal discipline. In addition for the government to fulfil its fiduciary responsibility, external audit has to be carried out using acceptable standards.

Recommendation: ACTA recommends that information on the impact of O&M cost from the massive off-budget spending on infrastructure that will come under the responsibility of the Government over the transition period, is critical for alignment of budget and budget credibility. ACTA strongly believe that financial compliance is fundamental to the use of the budget as the primary policy instrument and contributing not only to budget credibility but as well as fiscal discipline; the current rate of non-compliance with rules undermines the capacity of institutions Government entities, including provincial budgetary agencies and Kabul municipality are audited by government Control and Audit Office focusing on compliance dimension only. Therefore ACTA recommends that audit of government final accounts should be carried by external audit.

d. Provincial Budgeting

The budget preparation process in Afghanistan has been highly centralized. Budget appropriations are prepared by ministry/agency, object code and project, but not taking into account provincial breakdown of the budget. There is no such mechanism in place in line ministries to develop and/or justify provincial allocations of their budget. In addition, provincial departments are not involved in the budget preparation and are not aware of the final budget allocation for their provinces. Furthermore the government does not have clear legislative framework for defining the roles and responsibilities of central administration and their provincial departments in budget preparation and execution processes. LMs do the provincial allocation based on the statistical information, their personal relations with provincial officials, influence of each MPs and influential and powerful officials at the national and sub national levels. MoF can play more influential and effective role in the formulation of the provincial budget as per requirement of an effective and efficient PFM system.

TMAF stipulates stronger role for provinces in the budget planning and execution, however, the national consultation sessions organized by Afghan Coalition for Transparency and Accountability¹ indicates that provinces are not involved in the budget development, execution and monitoring. While on one hand TMAF calls upon stronger role of members of provincial councils, on the other hand, the Afghan Parliament emphasizes on reducing the monitoring aspect

¹ Afghan Coalition for Transparency and Accountability - National Consultation with Health and Education Sectors in seven provinces of Afghanistan 2013.

from the TOR of members of provincial councils. These pose serious threat and could potentially lead to ill-led control of resource.

Recommendations: One of the commending efforts of MoF for FY 1392 has been the development of Provincial Budgeting Policy. The policy is used as a main tool for fiscal de-concentration to provincial administrations in line with the prevailing legislative framework. One of the positive aspects of the newly developed and adopted Provincial Budgeting Policy is to work with community on monitoring the budget execution. ACTA, therefore, recommends developing and agreeing a Joint Collaboration Framework between Afghan Civil Society and MoF whereby the civil society will monitor and report the progress towards implementation of the policy at the sub national level.

e. Program Budgeting (PB)

In order to better align ministries resources with their strategic objectives and policy priorities, and make line ministries accountable for their performance against the received budget, MoF, in 1385 in compliance with IMF and WB recommendations, decided to pilot the Program Budgeting (PB) in Afghanistan.

Since PB was completely a new method of budgeting requiring a lot of capacity development within MoF and line ministries, its rollout was planned in various phases. The first phase included ministries of Education, Public Health and Rural Rehabilitation and Development. The result of first phase with three pilot ministries varied from one another depending mainly on political will of the leadership and technical capacity of each of the pilot ministries. The process expanded to all ministries quite rapidly however it still has many challenges. While ministries are submitting their budgets to MoF based on their programs, MoF still submits the national budget to Cabinet and Parliament based on line items not programs. Most of the ministries still have two separate departments in-charge of planning and executing ordinary and development budgets in isolation from one another. None of the ministries have delegated even minimal budget planning and execution authority to line departments so that they can plan and execute their budgets. While ministries are guided and assisted by MoF on preparation of their budget based on programs, they are not guided and assisted on execution of their budgets based on programs.

Recommendations: ACTA recommends that MoF must maintain the momentum of program budgeting, 1) by providing continuous support and guidance to line ministries not only in budget preparation but also in budget execution based on their programs, 2) Minister of Finance should convene regular inter-ministerial meetings with ministers to discuss progress of program budgeting in their ministries, 3) providing continuous training and capacity building programs to technical staff of line ministries, monitoring program budgeting performance of line ministries and providing them feedback for further improvement. Furthermore, MoF in coordination with Independent Afghanistan Reform and Civil Service Commission (IARCSC) instruct all line ministries on division of roles and responsibilities between Finance/Admin and Planning departments in preparation and execution of both development and ordinary budgets. MoF is also encouraged to prepare a Program Budgeting Policy in consultation with line ministries and civil society and obtain approval of Cabinet in order to legalize the process.

f. Gender Responsive Budgeting (GRB)

Gender is a cross cutting issue in all National Priority Programs. Government has committed itself to gender equality under various national policies and international treaties namely Afghanistan Constitution, Convention on the Elimination of Discrimination against Women (CEDAW),

Afghanistan Millennium Development Goals (MDGs), Afghanistan Compact and National Action Plan for Women of Afghanistan (NAPWA). To achieve the goals and objectives of the above commitments, Gender Responsive Budgeting (GRB) is the right tool. GRB is the process of allocation and prioritization of resources in which the needs of different gender groups are taken into account and encourages women rights.

GRB is one of the key reforms which MoF has undertaken in recent years. It started in 1390 budget with 4 pilot ministries including MoPH, MoE, MoHE and MoLSAMD. The pilot for 1393 budget is now expanded to 6 ministries, which includes MoAIL and MRRD.

Recommendations: *MoF has developed a GRB policy which is providing technical direction to line ministries, however, for successful implementation of GRB, MoF should first strengthen and expand its GRB policy in consultation with line ministries, women and budget committees of parliament and civil society. MoF should make sure its budgeting and financial management systems have the capability of tracking gender segregated budget and expenditure of line ministries and provide continuous training and guidance support to line ministries. GRB is a mechanism which not only Afghanistan but many other under developed countries have challenges in implementation, however, Afghanistan's Ministry of Finance can become the champion of GRB amongst the under developed countries if there is a political will since unlike other countries Afghanistan is receiving overwhelming donor support for gender mainstreaming.*

g. Afghanistan's Status on the Open Budget Index

The Open Budget Survey 2012 has evaluated public participation in the budget process of Afghanistan and has pin-pointed that Afghan government provides limited public engagement opportunities in the budget process. Afghanistan's OBI score increased from 21 in the 2010 Survey to 59 in 2012, a jump of 38 points. This improvement is a result of the government's decision to disclose budget information not previously published, including the Pre-Budget Statement, Executive Budget Proposal and Citizen Budget. According to the result of this survey, in 2012 Afghanistan has marked highest score in South East Asian countries, only India is ahead with a score of 68. Afghanistan is ahead of Pakistan, Sri Lanka and Bangladesh.

Recommendations: *Despite commendable progress, there is still a lot of room for improvement in the Open Budget Initiative (OBI) score and to increase transparency of public funds. MoF must: 1) publish documents such as Mid-Year Review and Audit Report with regard to OBI, 2) increase the comprehensiveness of Executive Budget Proposal, specifically by focusing on providing information on areas such as: non-tax revenues for the budget year, financial and nonfinancial assets, expenditure arrears, contingent and future liabilities, donor assistance, and tax expenditures. MoF must also make sure that momentum of improvements in the budget transparency is not lost. As OBI is all about transparency and information sharing related to the budget documents.*

ACTA also recommends for approval of Access to Information Law that is pending approval of the Parliament.

5. ROLE OF KEY STAKEHOLDERS

a. Ministry of Finance (MoF)

MoF is setting the annual domestic revenue and overall ceiling for national budget as whole and for each budgetary unit/line ministry, preparing budget circulars, guiding ministries on their budget preparation, conducting training workshops for relevant staff of ministries, hosting budget hearings with all ministries, reviewing and negotiating their budgets, submitting the budget to Cabinet and

Parliament for review and approval. MoF is responsible for guiding and assisting line ministries in executing their budgets according to plan and submitting financial reports to MoF and its provincial departments (Mustofiate) by end of each month which results in preparation of Qatia final account of the national budget which once again has to be approved by Cabinet and Parliament.

Ministry of Finance plays the key role in budget preparation and execution process and has to deal with several stakeholders to ensure their active participation and contribution for successful budget preparation and execution process. Following are the main stakeholders that MoF needs to work with and ensure support and cooperation:

b. Internal Stakeholders

Budgetary Units/Line Ministries: The Budgetary Units/Line Ministries have to prepare and execute both ordinary and development budgets based on Budget Circulars from MoF. They have to distribute the budget fairly amongst all the provinces, transfer budget to provinces, provide them guidance and training on their budget expenditure, collect monthly reports from them and submit to MoF. LMs have to provide same kind of support and guidance to provinces that they receive from MoF in terms of their budget preparation and execution.

Before review of budget, ACTA conducted consultation meetings with civil society and three ministries on the challenges of budget preparation and execution. It was observed that Line Ministries have serious problems with Authority General Office and Control and Audit Office. According to many the state institutions which are supposed to fight corruption have actually become hub of corruption. Furthermore, MoF has financial controllers in all budgetary units/line ministries who are not only checking and controlling payment requests but also procurement, contracting, inventory and all other related documents, which have made all these processes greatly bureaucratic. On the other hand when payment requests, after MoF controllers' signatures and stamps are submitted to MoF for processing, they usually get rejected due to non-compliance reasons. The question that the ministries are having is that are these controllers part of the solution or problem, and what is their added value in the whole process of budget execution.

Recommendations: All the concerns and issues mentioned above are raised by all ministries, however, none of them can single handedly raise or address these issues seriously. It is therefore highly recommended that MoF as the key institution responsible for preparation and execution of national budget should hold a meeting with all ministries and discuss their main challenges in budget preparation and execution and come up with solution, should the MoF want to improve budget execution.

Budget Committee: Budget Committee is a Cabinet sub-committee comprised of MoF (Chair), Ministry of Economy, Ministry of Foreign Affairs and a 4th Agency appointed by the President. This committee is established according to Budget Law of Afghanistan to ensure oversight of the national budget.

In the past few years, Ministry of Women Affairs has been the 4th member to ensure that gender issues are adequately addressed in the national budget. This committee's responsibility is to review budgets of line ministries and conduct budget hearing/negotiations and submit the final budget to Cabinet for review and approval. While this is an important mechanism for ensuring oversight of the budget and ensuring fair distribution of resource to sectors, however, there are other stakeholders such as civil society and Parliament whose role is also important to

participate as observers in budget hearing. It is therefore highly recommended that MoF invite representatives from civil society and Budget Committee of Parliament in budget hearing/negotiations as observers to ensure further transparency and accountability of the process.

c. External Stakeholders

Citizens and Civil Society: Based on the Afghanistan PFM Legislative Framework the civil society does not have a well defined role in the budget formulation process. Neither the MoF nor the Parliament consults civil society in the budget formulation process although since few years MoF has begun conducting post-budget workshops with civil society. There is not a proper and regular information sharing mechanism in place for citizens and civil society.

Recommendations: *Civil society has an important role to play in bridging the gap between government and people and voicing people's needs. Both government and civil society have their own unique roles to play in serving the citizens. It is therefore important that rather than blaming each other and trying to pinpoint weaknesses of each other, both can join forces to serve the citizens jointly. It is highly recommended that MoF develops and adopts a Cooperation Framework with CSOs working in the area of national and sub-national governance which will require both parties for information sharing, regular consultative meetings, conducting pre-budget and post-budget workshops in the center and provinces, allow civil society to monitor and report on budget preparation and execution processes and assist Parliament in review and approval of budget.*

Parliament: Article Numbers 43, 90, 91, 97 and 98 of Budget Law requires and empowers Parliament with the legal right to approve or reject national budget, loans, development programs, final accounts of previous year's budget, any changes occurring in revenue and expenditure ceilings during course of a fiscal year. The Parliament during budget review and approval of budget should ensure that it is responding to citizens' needs, it is fairly distributed to line ministries/budgetary unit and provinces, aligned with national programs and priorities and ensuring balanced development and employment.

There are three types of amendment powers to change executive's draft budget worldwide, 1) accept or reject the draft budget, 2) amendment power as long as consolidate totals or budget deficits are maintained, and 3) the practice of unlimited powers. Afghanistan's Parliament just has the authority to accept or reject the draft budget which is the weakest form of legislative power and we can say that the Parliament of Afghanistan does not have the authority to amend the draft budget. However, practically they do influence resource distribution by rejecting the budget formally and then sending recommendations to MoF informally which promotes corruption and unfair allocation of resources especially when most of the parliamentarians are focused only on small projects for their own constituencies and communities.

Recommendations: *Providing the weakest form of legislative power to Parliament is not only backfiring budget discussions and focus on macro-economic and social interest of Afghanistan, but has also encouraged rapid corruption and personal deals at the very micro projects level. Parliamentarians should begin reviewing the budget based on macroeconomic interest of Afghanistan and pay more attention to sectors and provincial distribution than focusing on very localized small-scale projects. Parliament and civil society should join hands in monitoring execution of budget and oversight of projects at the provincial level and ensure transparent, efficient and effective service delivery by state institutions.*

6. CONCLUSION

Budget is a key tool for implementing government economic policies. In the past decade, budgeting in Afghanistan has evolved greatly and the budget preparation, execution, and monitoring is improving tremendously. PFM capacities in the government in general and in MoF in particular have also greatly enhanced and budget preparation is much punctual and disciplined than it used to be in the past. Last but not the least, budgetary transparency has improved considerably. This gives a great hope and prospect for the future not only to the government and MoF but also the civil society and all citizens.

By looking at the current realities of Afghanistan, FY 1393 budget proposal is a good proposal and in most cases is the reflection of national, provincial and local priorities. Scarcity of financial resources particularly discretionary is one of the key hurdles in the development efforts of the country. Systematic reforms in revenue and customs are required in order for the government to stand on its own feet. FY 1393 is not going to be an easy year, Presidential and Provincial council elections and the international security forces complete pull out may pose challenges both for budget execution and revenue collection.

ACTA strongly believe that the engagement of civil society has to be and can be improved and increased to greater extent. In order for civil society engagement to be more effective and efficient, its engagement has to be legally and legislatively sanctioned, otherwise they will not be able to add any value.

Disclaimer

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