



Independent Review of Afghanistan 1394 Draft National Budget

A Snapshot of Resources, Allocations, and
Public Finance Management Performance

November 2014

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Acronyms

ACTA	Afghan Coalition for Transparency and Accountability	ISAF	International Security Assistance Force
ADB	Asian Development Bank	LOTFA	Law and Order Trust Fund for Afghanistan
AFN	Afghani (currency)	M&E	Monitoring and Evaluation
AMDGs	Afghanistan Millennium Development Goals	MoEd	Ministry of Education
ANDS	Afghanistan National Development Strategy	MoF	Ministry of Finance
ARTF	Afghanistan Reconstruction Trust Fund	MoPH	Ministry of Public Health
ARTF	Afghanistan Reconstruction Trust Fund	MTBF	Medium-Term Budget Framework
BPHS	Basic Package of Health Services	NPP	National Priority Plan
CBR	Capacity Building for Results	O&M	Operations and Maintenance
CSC	Community Score Card	ODA	Official Development Assistance
CSOs	Civil Society Organizations	PFEM	Public Finance and Expenditure Management
CSTC-A	Combined Security Transition Command-Afghanistan	PFM	Public Financial Management
DCD	Development Cooperation Dialogue	PFMR	Public Financial Management Roadmap
DG	Directorate General	PPU	Procurement Policy Unit
EPD	EQUALITY for Peace and Democracy	PRT	Provincial Reconstruction Team
FY	Fiscal Year	SAO	Supreme Audit Office
GDP	Gross Domestic Product	USAID	United States Agency for International Development
GIRoA	Government of the Islamic Republic of Afghanistan	USD	United States Dollars (currency)
HR	Human Resources	VAT	Value Added Tax

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Introduction

Through its Afghan Coalition for Transparency and Accountability (ACTA) platform, EQUALITY for Peace and Democracy (EPD) has pioneered the utilization of the national budget as a monitoring tool for monitoring government resource distribution and service delivery. EPD conducts an annual review of the National Budget, which started in 1391 (2012), to provide further details to Parliament to review the national budget. The process gives insight to the national budget from a civil society perspective on national budget planning, execution, monitoring and reporting with special emphasis on the role of civil society and citizens in the entire process.

With this annual project, EPD aims to present a simple and coherent review of the budget so that people can understand the budget and what it means for their daily lives and review the quality of services via allocated resources. This independent budget review also provides details to Afghan parliament to review and approve the national budget. The process furthermore provides a platform for input on national budget planning from a civil society perspective.

This snapshot budget review is a summary review released along with the sending of the budget to Parliament to provide a timely review of the budget and this year's developments in public financial management, reforms, and benchmarks. The snapshot review precedes the larger 1394 Annual Budget Assessment, which goes further into the 1394 budget and analyzes actual allocations against key targets and indicators, as well as a comprehensive review of the 1392 final accounts.

1.1 Methodology

The 1394 National Budget Review began with a desk review of the implementation process of key budget and Public Financial Management (PFM) reforms as outlined in policy documents and discussed in the literature.

Accordingly, questionnaires were developed and divided thematically for each separate cluster of interviews for Ministry of Finance (MoF) senior government officials (Directorate General (DG) Budget, DG Treasury, and DG Customs), senior government officials of service delivery ministries (Ministry of Public Health (MoPH) and Ministry of Education (MoEd), civil society organizations (CSOs), and PFM experts. 7 people were interviewed through the consultations at the central level, a consultation was organized with 11 CSOs in Kabul, and an online survey on the national budget and service delivery was conducted with CSOs with 7 responsive organizations.

Provincial consultations were conducted in ACTA communities in Bamyan province, Herat province, Nangarhar province, and Dasht-e Barchi and Qarabagh areas of Kabul province. At the provincial level, Community Score Card (CSC) exercises were conducted with ACTA networks, male community members, and female community members, and service provider self-evaluations with one senior official (Director or Deputy) from the Department of Public Health and Department of Education. The CSC consisted of an input tracking scorecard, identification of key issues, community-generated scorecard, and a provider self-evaluation scorecard based on commitments in each sector from policy documents including the Afghanistan National Development Strategy (ANDS) and National Priority Plans (NPPs). In total, 200 people were interviewed at the subnational level.

All interviews were recorded, transcribed, and translated into English. The central-level recorded interviews were coded and analyzed, and the provincial-level CSCs were consolidated into one comprehensive scorecard for each sector in each province for analysis. All figures for FY 1394 are taken from the National Budget Draft sent to Parliament on 11 November 2014.

1394 National Budget Draft at a Glance

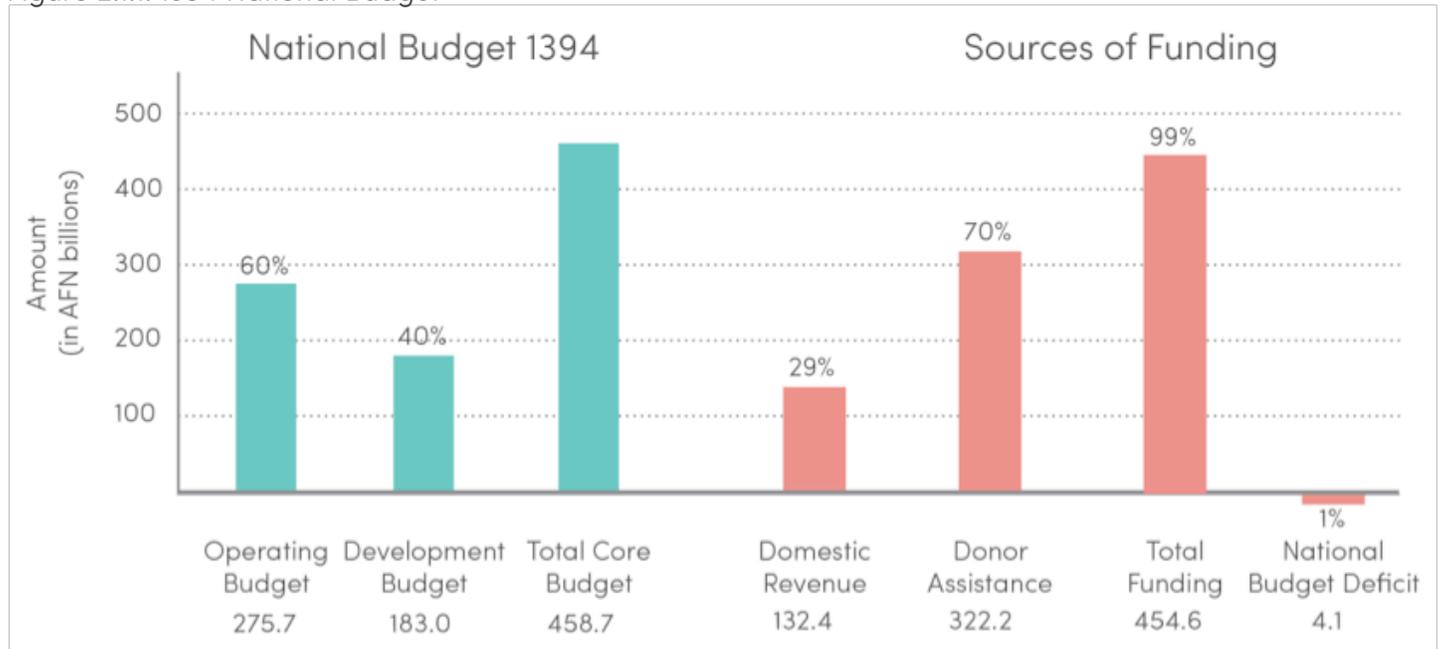
The proposed budget for FY 1394 is USD 8.048 billion (AFN 458.751 billion), which is 7% higher in comparison to the 1393 budget of USD 7.641 billion (AFN 428.38 billion).

which constitutes 70% of the overall budget for 1394. However, there is a budget deficit of USD 72.5 million (AFN 4.134 billion), which amounts to only 1% of the national budget, down from a 6% deficit in 1393.

The national budget is funded through domestic revenue, donor's assistance, and loans. Domestic revenue for 1394 is projected at USD 2.323 billion (AFN 132.424 billion), constituting 29% of the national budget. For 1394, international donors have committed USD 5.652 billion (AFN 322.192 billion),

In the 1394 budget, USD 4.837 billion (AFN 275.749 billion) 60% of the proposed national budget is allocated for the operating budget, and USD 3.210 billion (AFN 183.002 billion) 40% is allocated for the development budget.

Figure 2.1.1: 1394 National Budget



2.1 Estimated Resources

Domestic Revenue

The government's revenue target for 1394 is USD 2.323 billion (AFN 132.424 billion). MoF has estimated that 78% of the domestic revenue will be generated through taxes. Of this, 35% is estimated from revenue taxes, 20% from taxes on international trade, 17% from domestic goods and services, and 6% from other taxable revenue. 22% of domestic revenue is estimated from domestic non-taxable revenues. Of this, 1% is estimated from fuel transit, 1% from railway, and 19% from other non-taxable revenues.

As of the end of the third quarter of 1393, the government had only collected AFN 50.938 billion AFN,¹ 61% below the target of AFN 132.000 billion for the year to date.² They had only collected AFN 24.451 billion in taxes, AFN

¹ GIROA, 1393 Revenue collection and target summary July (2014).

² GIROA, National budget statement 1393 (2014).

12.144 billion in customs duties and fees, and AFN 8.037 billion from income from capital property, sales of goods and services, administrative fees, royalties, non-tax fines and penalties, and the extractive industry.³ The target for 1394 is only AFN 424 million higher than the 1393 target for domestic revenues. Considering the low level of collection for the first nine months, it is again unlikely that the government will perform up to mark on revenue collection and achieve the set target. The GIROA has been consistently missing its domestic revenue targets over the last years, being under target this fiscal year and having missed the target with 7% for 1392.⁴ It should also be noted that the low level of revenue collection in 1393 can be considered an outlier as the months-long political crisis brought the economy to a standstill.

Donor Assistance

For 1394, international donors have committed USD 5.652 billion (AFN 322.192 billion), which constitutes 70% of the

³ GIROA, 1393 Revenue collection and target summary July (2014).

⁴ GIROA, National budget statement 1394 (2013).

overall budget for 1394. USD 2.635 billion (AFN 150.225 billion) is allocated to the operating budget through the Combined Security Transition Command-Afghanistan (CSTC-A), Afghanistan Reconstruction Trust Fund (ARTF), and the Law and Order Trust Fund for Afghanistan (LOTFA). USD 3.017 billion (AFN 171.966) is allocated to the development budget, which includes new projects and budget carry-over from the 1393 development budget that was not spent in 1393. In the donor's share of the development budget, USD 180 million (AFN 10.260 billion) is allocated as discretionary assistance, USD 2.758 billion (AFN 157.197 billion) in non-discretionary assistance, and USD 79 million (AFN 4.509 billion) in loans.

Compared to 1393, this represents a 10% increase in on-budget donor commitments from the USD 5.112 billion (AFN 286.302 billion) committed in 1393. Though this is an increase from 1393, the increase is lower than the 23% increase in donor assistance from 1392 to 1393.

2.2 Allocations 1394

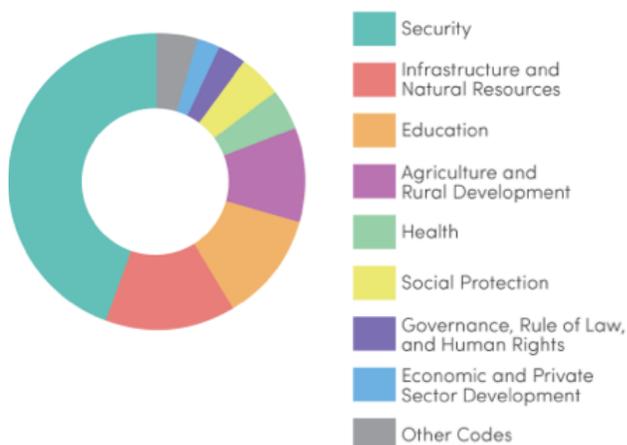
Operating Budget

The proposed operating budget for 1394 is USD 4.837 billion (AFN 275.749 billion), constituting 60% of the proposed national budget. In monetary terms, the operating budget has decreased by USD 83 million (AFN 4.723 billion) from 1393, constituting a 1.7% decrease. It has a 5% lower share of the overall budget than in 1393. Based on budget codes, 56% of the operating budget for 1394 is allocated for wages and salaries (Code 21), 29% for goods and services (Code 22), 4% for acquisition of assets (Code 25), and 11% in contingency codes.

Figure 2.1.1: Draft Allocations 1394 by Sector

No	Sector	In USD (millions)			% Total	% OB	% DB
		Operating Budget (OB)	Development Budget (DB)	Total			
1	Security	3,216.951	353.136	3,570.088	44	66	11
2	Infrastructure and Natural Resources	110.443	1,032.646	1,143.089	14	2	32
3	Education	631.493	333.764	965.257	12	13	10
4	Agriculture and Rural Development	33.475	782.662	816.137	10	1	24
5	Health	48.981	319.597	368.578	5	1	10
6	Social Protection	347.870	17.419	365.289	5	7	1
7	Governance, Rule of Law, and Human Rights	224.642	29.044	253.668	3	5	1
8	Economic and Private Sector Development	50.738	149.688	200.426	2	1	5
9	Other codes	173.128	192.602	365.730	5	4	6
Total		4,837.703	3,210.559	8,048.262	100	100	100

Figure 2.2.1: Core Budget Breakdown by Sector



5 Ibid.

Development Budget

The proposed development budget for 1394 is USD 3.210 billion (AFN 183.002 billion), constituting 40% of the proposed national budget. In monetary terms, the development budget has increased by USD 616 million (AFN 35.096 billion) from 1393, constituting a 22% increase. It has a 5% higher share of the overall budget than in 1393.

88.4% of the development budget is for non-discretionary projects and 11.6% for discretionary projects, which means a 22.4% reduction in discretionary funding compared to the 1393 development budget.⁵ This demonstrates that while donors are providing more on-budget support to the Afghan government, they are providing less discretionary funding for development budget.

2.3 Comparing the 1393 and 1394 Budget

Figure 2.3.1: Comparing Allocations and Budget Execution

Sector	1394 and 1393 Allocations			1392 and 1393 Budget Execution					
	In USD (millions)			% Budget Execution OB		% Budget Execution DB		% Difference between Budget Execution in 1392 and 1393	
	Difference between Operating Budget (OB) and Development Budget (DB) 1394 and 1393		Difference between Total 1394 and 1393						
	OB	DB		1392	1393	1392	1393	OB	DB
Security	+9.587	+184.795	+194.382	87	61	44	8	-26	-36
Infrastructure and Natural Resources	-31.182	+91.652	+60.470	93	65	58	31	-28	-27
Education	-18.649	-3.406	-22.055	99	80	41	33	-19	-8
Agriculture and Rural Development	-1.543	+227.686	+226.143	92	80	76	70	-12	-6
Health	-17.565	+57.782	+40.217	99	79	41	48	-20	-7
Social Protection	-48.787	-4.305	-53.092	99	87	65	20	-12	-45
Governance, Rule of Law, and Human Rights	-11.604	-54.369	-65.973	95	82	42	17	-13	-25
Economic and Private Sector Development	+0.484	+25.945	+26.429	96	80	75	32	-16	-43
Other codes	-51.479	+43.602	-7.877	-	-	-	-	-	-
Total:	-170.747	+569.382	+398.653	95	77	55	32	-13	-23

The 1393 budget execution figures only represent budget execution up to 15 November 2014. The budget execution rates will likely improve and percentage difference from 1392 will likely narrow to some extent after accounting for budget execution in the last month and a half of 2014.

Figure 2.3.1 illustrates the difference in allocations from 1393 to 1394, and the budget execution rate by sector from 1392 to 1393 (through 15 November 2014). While allocations increased in the security, infrastructure and natural resources, agriculture and rural development, health, and economic and private sector development sectors, performance in terms of budget execution for each of these sectors was poor. The social protection sector dropped in budget execution by 45% from 1392 to 1393, infrastructure and natural resources by 27%, security by 36%, and economic and private sector development

by 43%, though some of these gaps will likely narrow when accounting for budget execution in the fourth quarter of 1393. Budget execution rates only dropped slightly in the health and agriculture and rural development sectors. This figure illustrates that while the budget increased from 1393 to 1394, the budget allocations do not align with the actual capacity of each sector to execute their budget. However, as discussed in section 3.3, as of the third quarter of 1393 though 94% of the operating budget had been allotted, only 50% of the development budget had been allotted, indicating that the low execution rate in the development budget is likely due to a combination of capacity on behalf of the sectoral ministries and allotments from the MoF at the central level.

Fiscal Sustainability

As donor assistance is declining post-2014 and with stagnant domestic revenues, fiscal sustainability becomes indispensable in order to maintain the progress made during the last decade. Effective utilization of resources represents the key challenge for GIRoA's public financial management in the Transformation Decade, which requires a prioritization of Operation and Maintenance (O&M), a higher budget execution rate of the development budget, and an increase in domestic revenue as a means to compensate for the loss in donor assistance.

Another means to ensure fiscal sustainability is medium-term budget planning. Government documents indicate that the MoF has developed a Medium-Term Budget Framework (MTBF) since 1391 in line with the requirements of the PFEM Law of 2005, of which the latest MTBF covers a

three-year period from 1394 to 1396. The purpose of the MTBF is to provide a preliminary draft budget that assesses existing budget policies and new funding priorities of the government for the next fiscal year and medium term. The MTBF outlines the projected allocation of fiscal resources in accordance with priorities, particularly those set within the ANDS and NPPs. This is the fifth MTBF produced by the MoF, and it is available in Dari on the Directorate General Budget Website. The effectiveness of the MTFBs is questionable since many of the targets such as improving budget execution and increasing domestic revenue have not been met. It is therefore crucial that future MTBFs includes strategies to address capacity issues within the central level and provincial level government to ensure that targets are met.

3.1 Domestic Revenues

With the full International Security Assistance Force (ISAF) withdrawal looming, domestic revenues will have to increase in order to compensate for the aid that is likely to decline post-2014. As the political crisis surrounding the 2014 presidential elections carried on in 1393, domestic revenue continued to decline with the government falling 21% short of their target in the second quarter and 95% short in the third, coming up 62% short of their target for the year to date in the first three quarters.⁶ In the context of restraint domestic revenues and a likely decline in foreign aid, the GIRoA has undertaken several actions⁷ and

developed 'Towards Self-Reliance: Strategic Vision for the Transformation Decade' in 2012. This document outlined a variety of measures to increase domestic revenues to approximately 15.9% of GDP by 2020 in order to overcome the fiscal gap of approximately 33.6% of GDP in 2015.⁸ Considering that domestic revenue as a percentage of GDP has been hovering between 10% and 11% (11% in 1390, 10.9% in 1391 and 10.4% in 1392), the target of 15.9% in 2020 seems unrealistic as efforts made by the government to increase domestic revenue remain ineffective. As earlier mentioned, revenue collection in 1393 has been particularly low, but this has been exacerbated by the political crisis.

As a means to increase revenues from taxes, a flat value-

6 GIRoA, 1393 Revenue collection and target summary July (2014).

7 GIRoA, Mining, oil and gas investor forum (2013).

8 GIRoA, Towards self-reliance: Strategic vision for the transformation decade (2012).

added tax (VAT) was scheduled to be implemented in 2014 in line with the IMF's Extended Credit Facility plan for Afghanistan and was finally approved by the Parliament in May 2014.⁹ The GIRoA estimated that the proposed VAT would add around USD 700 million to government revenue beginning in 2015, with VAT revenue increasing as GDP grows¹⁰ and is estimated to possibly generate 1% to 2% of GDP by 2021/22.¹¹ According to the GIRoA, another promising revenue stream comes from mining revenues, which they expect to generate revenues of over USD 650 million by 2020¹² or 2% to 3% of GDP in 2021/2022.¹³ The GIRoA also identified estimated customs and mining revenues from the Aynak and Hajigak projects and other locations. Countering fraud and corruption in customs collection is crucial to engender efficiency as some port officials have suggested that up to 70% of border revenue is lost to corruption,¹⁴ while corruption issues plague the extractive industries sector and mining royalties and taxes are not always received from extractive industries,¹⁵ undermining the projected potential of the sector to contribute to domestic revenues in the absence of effective safeguards.

These sources of income have the potential to increase domestic revenue and strengthen the budget, yet many constraints remain that prevent the existing potential towards self-reliance to materialize. First of all, the VAT implementation has been delayed and the World Bank projects that the VAT revenues will not be realized until 2016/2017.¹⁶ Second, several challenges continue to prevent the mining industry from generating revenues: a lack of investment in transportation infrastructure and O&M, physical insecurity for mining personnel, and the absence of a sound legal framework that protects private sector investment and promotes transparency and accountability.¹⁷

9 GIRoA, VAT law implementation preparations April (2014). Visited [website](#) on November 17 2014.

10 Sternlieb, "Inadequate revenue threatens Afghanistan's stability" International Journal of Security and Development Vol. 3, No. 1, 2014.

11 World Bank, Afghanistan in Transition: Looking Beyond 2014 (2014) 82.

12 GIRoA, Towards self-reliance.

13 World Bank, Afghanistan in Transition: Looking Beyond 2014 (2014) 82.

14 Sternlieb, Inadequate revenue threatens Afghanistan's stability; SIGAR, Afghan customs: Audit report (2014).

15 USIP, Afghanistan's looming crisis.

16 Sternlieb, Inadequate revenue threatens Afghanistan's stability.

17 Sternlieb, Inadequate revenue threatens Afghanistan's stability.

Lastly, anti-corruption measures lag behind as corruption remains ubiquitous among government officials in customs,¹⁸ while a senior government official of the DG Customs state that this year's "10% decrease in revenues and trade" further impedes customs revenue. The World Bank also noted that significant grant assistance will still be required to improve revenue mobilization and kick-start private sector investment that could in turn increase the tax-base.¹⁹

As EPD's snapshot from last year indicated, the MoF has attempted to address corruption by making country-wide changes in the senior management of the Revenue and Customs Departments. However, these changes have been largely symbolic based on the shuffling of staff instead of removing those members of staff that have been involved in corruption.²⁰ In addition, effective monitoring and evaluation (M&E) systems have been not yet been installed as a means to monitor the collection of revenues of key government institutions such as DG Customs at the MoF and the Ministry of Mines. Although a senior government official of DG Customs at the MoF during an EPD interview called the Department's automation of the customs clearance process a 'real revolution,' the implemented Automated System Customs Data (ASYCUDA) has not been shown to curb corruption substantially 10 years after its introduction despite an increase in customs revenue²¹ as corruption is still widespread. With regards to the Ministry of Mines, the World Bank-funded program Sustainable Development of Natural Resources Project II has been able to establish the Extractive Industries Transparency Initiative (EITI) and supported CSOs to monitor the ministry's activities but establishing an M&E system has not been part of the program as of yet.²² Furthermore, a mapping of the revenue potential per province that enables comparison between the actual revenue collection and the reported revenue collection also remains absent.

18 IWA, National corruption survey (2014).

19 World Bank, Afghanistan economic update (2013).

20 EPD, Independent review of Afghanistan 1393 national budget (2013).

21 UNCTAD, Streamlining customs: More revenue for governments, less delay for business (2010).

22 World Bank, Implementation status and results May 2014: Sustainable development of natural resources project II (2014).

3.2 Operations and Maintenance

More than a decade of state-building has passed supporting the rebuilding of Afghanistan after prolonged conflict to enable economic growth and help sustain long-term development. Quintessential public sector assets such as roads, bridges, hospitals and schools were built or refurbished to facilitate GIRoA's service delivery and generic government and non-government activities. In this light, the ARTF financed the O&M Facility Program to maintain and sustain

the improvements that have been made.²³ The building of infrastructure assets and accompanying O&M costs over the last years requires significant expenditures and as foreign aid is likely to decline post-2014 sustaining sufficient O&M will require difficult prioritization decisions regarding which assets could/should be maintained and which not.

ISAF has estimated that USD 3.5 billion would be required per year in O&M for military infrastructure and equipment assets to be preserved.²⁴ These costs would cover repairs, utility costs, regular operations at Afghan National Security Forces (ANSF) bases and police stations across the country, existing and planned new procurement of equipment, repairs and a few other miscellaneous costs. ISAF's estimate for non-security O&M costs is lower at USD 1.3 billion to maintain the non-security assets. This number accounts for assets maintenance.²⁵ According to a senior government official of the DG Budget at the MoF EPD interviewed, the "1 billion dollars might even be too low of an estimate [for non-security O&M costs]...you just have to look at the National Solidarity Program as a case [in point]".

A report from 2013 highlighted the lack of systematic

23 GIRoA, National budget statement 1393 (2014).

24 World Bank, Afghanistan in Transition: Looking Beyond 2014 (2014).

25 World Bank, Afghanistan in Transition: Looking Beyond 2014 (2014).

approach to O&M in the impending transition. In addition to the declining investment in development, the Provincial Reconstruction Teams (PRTs) which had implemented a number of development projects across Afghanistan closed out throughout 2014, that largely ahead of the finalization of the PRT Evolution Framework and implementation the plan.²⁶ For example, in the 2011/12 core budget, USD 28 million was allocated for the O&M of roads, compared with an estimated need of USD 290 million.²⁷ The increase in the number of facilities and infrastructure the government will be solely responsible for providing O&M funding will likely pose an additional challenge in FY 1394. It is noteworthy that in EPD's provincial consultations, not one community reported that the government provides maintenance of education facilities. Though those in Bamyan said that sometimes the government provides maintenance for health facilities, in the other three provinces those consulted also reported that the government does not provide maintenance for existing facilities. The communities reported that while there is still a large gap regarding O&M, currently NGOs are largely the only actors taking on this responsibility, which is an unsustainable means of ensuring the maintenance of existing facilities and infrastructure.

26 IWA, Community involvement and the sustainability of PRT development projects in Afghanistan after transition (2013).

27 World Bank, Afghanistan in Transition: Looking Beyond 2014 (2014) 17.

3.3 Budget Execution

According to the 1388-1392 Strategic Plan, by 1392 the MoF aimed to be executing 95% of the core budget, 100% of the operating budget, and 85% of the development budget. In the 1393 budget, according to the MoF Execution Report from of 15 November 2014, 94% of the operating budget had been allotted, and 50% of the development budget had been allotted, with 76% of the core budget allotted. However, only 66% of the 1393 operating budget had actually been expended, only 35% of the 1393 development budget, and only 54% of the core budget.²⁸ Overall, though the fiscal year is not yet complete, in budget execution the government is continuing to miss its targets and exhibit a low budget execution rate, as well as missing the Strategic Plan target of a less than 8% gap between allotments and expenditures by a wide gap.

A low budget execution rate in the development budget can lead to financial and material shortages for service delivery providers such as schools and hospitals, and also lowers

28 GIRoA, Execution report 15-11-2014 (2014).

the budget available for the year thereafter as budgets are partially determined by the spending from the year before. As the budget allotments and expenditures percentages of the latest execution report indicate, budget execution for the operating budget is primarily an issue for the provincial level as the MoF's budget allotments flow consistently at 93% while the expenditures are 66%, but budget execution for the development budget is also an issue for the central level as the MoF's budget allotments are only 50% and the expenditures are 35%.²⁹ A PFM expert interviewed by EPD argued that "budget execution is not such a big issue as some might suggest if you look at the absolute expenditures each year. It is increasing year after year despite a low budget execution rate, which can be attributed to the gradual increase of on-budget support since a few years and increase in domestic revenues (until this year that is)." This suggests that gradual increase in on-budget donor assistance to 50% can ensure that expenditures can increase despite year-after-year low budget execution rates, which does not negate the fact that budget execution is a serious concern that should be addressed both at the central and provincial level.

29 GIRoA, Execution report 15-11-2014 (2014).

3.4 Donor Assistance and Discretionary Authority

The MoF began its 2014 Development Cooperation Dialogues (DCDs) in July 2014. These meetings have been held every year since 2006 to review achievements for each donor over the past year and to discuss upcoming areas of support. 2014 was the first year that all UN agencies in Afghanistan participated in the process.³⁰ The meetings concluded in August 2014, with the Development Cooperation Report due for issue in September, though no such document is yet available. The most recent report publicly available is from 2012.

Afghanistan’s national budget is structured in such a way to facilitate government-controlled assistance streams flowing on-budget through the core budget and donor-controlled assistance streams flowing off-budget through the external budget. Despite the recent increase in on-budget funding, a large percentage of the core budget (66% of the development budget in FY 1393), remains under the discretionary authority of the international donors and is based on agreements with each donor for specific projects

30 GIRoA, Ministry of Finance begins development cooperation dialogues (2014). Visited [website](#) on November 17 2014.

while nonetheless flowing through the government-controlled budget. In the 1394 budget, the discretionary budget constitutes 8% of the development budget.

This issue of the GIRoA’s lack of discretionary authority over the development budget is not often highlighted as a concern for ‘good governance’ besides the international donors’ pledge to increase on-budget support for the core budget to 50%. Forthcoming research from EPD found that efforts to improve budget effectiveness such as provincial budgeting and capacity building are simply unrealistic if the GIRoA does not have sufficient discretionary authority over the national budget,³¹ especially in light of stagnant domestic revenues and the decline in foreign aid post-2014 when ISAF disbands. This resonated with a senior government official of the DG Treasury at the MoF EPD interviewed, noting, “provincial budgeting without discretionary budget [in the development budget] is not possible.” However, an increase in discretionary authority over the development budget being granted by the international donors is contingent on several factors such as improvements made in the budget execution performance and, as a PFM expert interviewed by EPD mentioned, “the availability of leadership in the government to align programs with donor’s interests”.

31 EPD, *Building a better budget* (forthcoming).



Through a process of gradual capacity building, the MoF has been managing public finance and the process of national budget development in an increasingly more effective manner according to international standards.³² However, challenges remain as the government’s performance is still largely dependent on support from international donors while corruption remains a serious concern for resource leakage. The withdrawal of the ISAF troops and the anticipated decline in foreign aid therefore requires an even steeper learning curve to ensure effective and accountable public financial management.

The Ministry of Finance prepared a Strategic Plan covering the period from 1388-1392 outlining its vision and goals,

32 World Bank, *Public financial management and accountability assessment* (2013).

values and objectives, programs, sub-programs and activities, organizational structure, annual priorities, risk and mitigation measures, and monitoring and evaluation framework. Though the plan only covered a four-year period up to 1392, MoF still produced performance reports on this Strategic Plan in 1393, and no new Strategic Plan has been developed. Similarly, while each department was required to develop 5-year plans in 1388, many of these have similarly expired, indicating a present gap in planning and strategic frameworks regarding PFM.

The Ministry of Finance launched the second round of reforms under the Public Finance Management Roadmap (PFMR) II in February 2014 after completing the first PFMR that was developed in 2010. PFMR II continues

to support the first PFMR, with the main objectives of strengthening public financial management through effective procurement, treasury and audit structures and systems in line with sound financial management standards of monitoring, reporting and control. According to the last implementation status and results report, progress towards achievement of project development objectives was moderately satisfactory, and overall implementation progress was moderately satisfactory.³³ Within the scope

33 World Bank, *Implementation status and results June 2014: Public financial management reform II* (2014).

of the overall reform structure, notable progress has been made in terms of shifting off-budget donor assistance to on-budget, the percentage of procurement conducted by line ministries using stand-alone procurement, procurement and HR training, and line ministry PFM assessments. Progress is still behind target in restructuring procurement offices in the line ministries and provincial offices, progress of line ministries internal audits, establishing a legal framework for the accounting profession, and the quality of audited statements submitted to Parliament.³⁴

34 Ibid.

4.1 Transparency and Accountability

Government transparency and institutionalized accountability mechanisms are understood by the GIROA, international donors, and Afghan citizens³⁵ to be crucial for effective public financial management that is accountable to the people of Afghanistan. The GIROA have taken steps to improve transparency with the introduction of a pre-budget statement and a citizen's budget. However, forthcoming research from EPD suggests that local populations and CSOs often remain uninformed and/or unable to comprehend the budget.³⁶

The Ministry of Finance introduced the Citizen's Budget in 1390 as a commitment to openness and transparency, and again produced the publication in 1393, which is available in Dari, Pashto, and English. The Citizen's Budget is a simplified version of the national budget that outlines the main priorities of the government, budget resources, allocations and expenditures, and the aims and goals in key sectors. The Ministry of Finance also produced the 1393 National Budget Statement, which is a more comprehensive document outlining the strategic goals and priorities of the 1393 budget, the macroeconomic outlook, fiscal strategy and outlook, expenditure performance and outlook, expenditure analysis and outlook in each sector, the implementation of government priorities, budget reforms, municipalities, and state-owned enterprises. These reports are available on the DG Budget website.

In addition, throughout 1393, the MoF also published monthly fiscal reports from months 2 to 9 in English, Dari and Pashto. Though the MoF is meant to produce quarterly fiscal reports as well, only the first quarter bulletin is available online, and only in English. The monthly reports include budget highlights, summaries of revenue and

35 Integrity Watch Afghanistan (IWA), *National Corruption Survey* (2014).

36 EPD, *Building a better budget* (forthcoming).

expenditures, and budget execution rates. The first quarter fiscal bulletin included similar information in more depth, as well as a summary of developments and reporting on financing of the core budget. The MoF also produced budget execution reports in the form of a downloadable Excel file on a weekly basis from February 2014, which were available in Dari and English up to mid-July, then only in English through the rest of the year. These reports are available on the DG Budget website. The MoF Office of the Deputy Minister for Administration also released a Semi-Annual Performance Report in 1393 and a First Quarter Performance Report 1393 on the Strategic Plan, though both are available only in English on the Ministry of Finance website. The Directorate General Budget published the 1394 budget calendar in English and Dari as well as the 1394 Budget Planner, but has not yet published the Budget Circular instructions for 1394 as was done in 1393.

The Deputy Minister of Customs and Revenue released one summary report on 1393 Revenue Collection and Targets covering a period from April to July 2014. However, this is the only information on revenues publicly available in 1393. However, the website of the Revenue Department does include a phone number for reporting corruption from Ministry of Finance officers, as well as a guideline for submitting a complaint by email to one of two email addresses provided specifically for this purpose. Furthermore, the Procurement Policy Unit (PPU) has continued to post awarded contracts on the PPU website throughout 1393.

The development and publication of reports online is a promising commitment to transparency and accountability. However, it is important to note the limitations of this in the continued absence of an Access to Information Law and the culture of information in Afghanistan where, according to a survey from 2013, internet (3%) is not commonly used by Afghans to obtain information compared to radio (80%),

mobile phones (57%) and television (54%).³⁷ In the budget review, a troubling lack of transparency and accountability was noted from provincial departments reportedly due to instruction from central ministries. In Kabul, Herat, and Nangarhar provinces, one or both Directorates of Public Health and Education refused all or part of the interviews. These departments instructed the researcher to obtain different letters from different central institutions. When the researcher tried to follow procedure to obtain this

37 TAF, *A Survey of the Afghan People* (2013).

4.2 Monitoring and Evaluation

A critical part of public financial management is M&E, which entails various programs and mechanism to monitor and evaluate the public financing process from budget planning, budget execution and allocations to service delivery. The Public Finance and Expenditure Management (PFEM) Law of 2005 requires independent auditors to prepare an independent audit report of the previous fiscal year's financial statements before six months from the end of the fiscal year certifying the appropriation of accounts, and should be submitted to the Parliament and made publicly available.³⁸ The Supreme Audit Office (SAO) is mandated with the development of financial, performance and compliance audits, but many deficiencies hamper the auditing process as no performance audit has been conducted in the last two years prior to the publication of a World Bank report in 2013, the capacity and technical abilities of the SAO are not in line with international standards, and compliance audits are not made publicly available.³⁹ A PFM expert EPD interviewed underscored the existence of these deficiencies in the auditing system as the interviewee mentioned that the "Auditor General [who is the head of the audit system] has provided an unsatisfactory job in most aspects of conducting audits according to international standards; for example, he does not conduct a risk-based audit of the performance or financial statements."

In government documents, the GIRoA claims to have made some improvements in line with the aforementioned Strategic Plan, as the FY 1392 annual performance review report was prepared both in Dari and English and uploaded on the MoF website. Reporting templates and monitoring frameworks for 1393 with their indicators, baselines and

38 GIRoA, *Public finance and expenditure management law* (2005).

39 World Bank, *Public financial management and accountability assessment* (2013).

letter at the central level in another research project, the process was ongoing for over a months and the letter was never issued. In the provinces, government departments refused to share any information or documentation on actual provincial budget allocations or expenditures. Considering the lack of Internet access and level of literacy in Afghanistan, these firsthand experiences indicate a troubling lack of transparency and accountability regarding the use of public resources, particularly at the local level.

benchmarks were reviewed and updated in line with strategic plan, which were put into use for data collection.⁴⁰ Furthermore, a Quarterly Performance Review for the 1st quarter of 2014 of the Asian Development Bank (ADB) project was conducted with each line ministry project team during April 2014. As a result of these meetings, a results-oriented action plan was developed and decisions were taken in the high level wrap-up meeting chaired by the MoF.⁴¹

Nevertheless, deficiencies in the GIRoA's auditing system such as a lack of performance-based monitoring and the persistence of corruption continue to require the government's attention. International case studies of government M&E systems have shown that a government-wide M&E system could potentially increase effectiveness in public financing and ensure the proper allocation of the budget as data is collected that can inform the improvement of PFM processes.⁴² These experiences with institutionalizing a M&E system also reveal lessons learned that can be relevant for the Afghanistan context as an M&E system should avoid creating parallel structures but instead capitalize on existing M&E and governance structures, take into account the government's and civil service' capacities as well as the quality of information technology and data collection systems available, while the to be established M&E system can also be utilized as a performance assessment for (senior) civil servants.⁴³

40 GIRoA, *Semi-annual performance report 1393: On strategic plan* (2014).

41 GIRoA, *Semi-annual performance report 1393: On strategic plan* (2014).

42 World Bank (IEG), *Implementing a government-wide monitoring and evaluation system in South Africa* (2010); World Bank (IEG), *Monitoring and evaluation system: The case of Chile 1990-2014* (2014).

43 *Ibid.*

4.3 Provincial Budgeting

In 2014, a draft sub-national budgeting policy was prepared and is awaiting approval from the Cabinet.⁴⁴ Previous efforts at provincial budgeting were unsuccessful in focusing reform efforts on provincial governors and provincial department representatives with inadequate attention to central line ministries.⁴⁵ According to USAID, the new policy emphasizes collaboration between the ministries, provincial directorates, and provincial governors' offices with consultation and input from provincial councils; encourages more fair allocation of budget resources across all 34 provinces; provides for provincial consultations, planning and monitoring, and the role of provinces in budget execution.⁴⁶ Other accounts note that while it is aspirational, it lacks specificity.⁴⁷ However, likely in part due to the difficult political transition undergone this year, the policy has not yet been approved and it is unclear what the new administration's stance is on the policy.

According to MoF, for 1394, all budgetary units were meant to submit their budget with a provincial breakdown,⁴⁸ though it is unclear whether this was implemented as

44 UNDP, *Afghanistan subnational governance programme: 2014 First quarter project progress report* (2014).

45 SIGAR, *Governance March 2014* (2014).

46 SIGAR, *Governance March 2014* (2014).

47 DFID, *Annual review: Strengthening provincial administration and delivery (SPAD) in Afghanistan* March (2014).

48 GIROA, *Semi-annual performance report 1393: On strategic plan* (2014).

4.4 Results-Based Program Budgeting

Traditional budgeting in Afghanistan would formulate the budget based on face-value economic priorities like wages, goods and services rather than specific outputs and desirable results. The conventional budgeting system provided no or little information on what was to be produced, what services were to be delivered and what results were to be achieved.⁴⁹ Results-based program budgeting was therefore introduced as a policy reform by the GIROA with the objective of linking the budget to particular policy programs and outcomes as set out by the ANDS and the NPPs to ensure more effective budgeting. Its purpose was also to make the budget process more transparent and improve the accountability of government officials.⁵⁰

According to the MoF, for 1393 all budgetary units submitted their budget with a program budgeting mechanism, and

49 OECD, *Afghanistan: Recent budgeting developments* (2012); MoF, *Budget Reform Unit* (2012).

50 GIROA, *National budget statement 1393* (2014).

the 1394 budget sent to the Parliament does not have a breakdown of the budget allocation per province. A breakdown by province was provided in Dari and Pashto for the 1393 budget, but it seems to have been developed after the development of the budget. Furthermore, even if the budgets were submitted with a provincial breakdown, this likely continues to reflect priorities as identified at the central rather than provincial level as the Provincial Development Plans (PDPs) that are supposed to inform the provincial budgeting system on the needs and requirements per province have not been operationalized according to a senior government official of the DG Budget at the MoF. The interviewee mentioned to have "never heard of PDPs in a budget hearing." Others noted that though the PDPs are prepared and submitted, they are "wish lists" rather than actually planning and are not properly costed, and budget preparation capacity at the provincial level remains low according to some government officials at the central level. By all accounts in the interviews conducted at the central and provincial level with government officials, though some small improvements were noticed, the budgeting process remains highly centralized and provincial budgeting reforms have been stunted at best. The establishment of a provincial budgeting system has also been hampered by a lack of discretionary authority according to a senior government official of the DG Treasury at the MoF EPD interviewed.

the same practice was consistent for 1394.⁵¹ Despite the full operationalization of program budgeting, traditional budgeting per financial item is likely still being conducted at line ministries each year and co-constitutes budget formulation. Research from 2013 further indicates that progress has been noticeable overall and constraints such as the complexity of program budgeting have been addressed with simplification measures,⁵² which was underscored during an EPD interview with a senior government official of the DG Budget at the MoF who stated that "there are still some capacity issues within the ministries, particularly in understanding the results-language [of program budgeting]."

Furthermore, the budget execution reports from 1393 show that program budgeting has not been streamlined yet as these reports are still based on traditional budgeting as budget execution rate is reported by sector without a breakdown by program. Further reporting that evaluates the impact of program budgeting on budget effectiveness has been lacking.

51 GIROA, *Semi-annual performance report 1393: On strategic plan* (2014).

52 World Bank, *Public financial management and accountability assessment* (2013).

4.5 Gender Responsive Budgeting

For 1394 planning, government documents indicate that the BC2 included specific guidelines for budgeting based on gender needs for the Ministry of Finance regarding the budgeting of the six ministries that are a part of the GRB pilot program.⁵³ The instructions stipulate that the MoF should provide guidance on conducting a gender-sensitive stakeholder analysis, ensuring equality in service provision.

The guidelines instruct the MoF to ensure that the budgets submitted by the six pilot ministries include the objectives, achievements, qualitative and quantitative information for needs identification and specific actions to be taken to address gender-specific indicators to determine results in terms of reducing gender inequality. It also specifies that indicators should align with those recommended by the National Action Plan for the Women of Afghanistan (NAPWA) and ANDS strategy for gender equality. The guidelines instruct that the pricing and matching funds for the program should account for the percentage of female beneficiaries and their

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53 Ministry of Public Health, Ministry of Education, Ministry of Higher Education, Ministry of Rural Rehabilitation and Development, Ministry of Labor, Social Affairs, Martyrs and the Disabled, Ministry of Agriculture

share of the budget allocated. When filling the spreadsheet for development projects, pilot ministries are obligated to consider the gender-specific needs of women's participation, percentage of projects and percentage of male and female beneficiaries. According to the MoF, for 1393 and 1394, the six pilot line ministries submitted their budgets with a 'gender-sensitive' approach.⁵⁴ Though it is not yet certain to what extent they complied with all of these guidelines, the budget will be further reviewed in EPD's extended budget report. It is however clear that the existing guidelines do not require a gender budget statement or a breakdown of the allocations by gender-specific beneficiaries.

Furthermore, the government has not produced a gender budget statement, and currently provides no public breakdown of percentage of spending, programs, and beneficiaries by gender or justification of the budget in terms of promoting gender equality. In the absence of an institutionalized, effective gender budget statement, it is unlikely that this information is collected and compiled across sectors and therefore highly unlikely that the budget is meeting citizens' needs and particularly the needs of women in terms of promoting gender equality.

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54 GIROA, *Semi-annual performance report 1393: On strategic plan (2014)*.

4.6 Budgeting to Meet Needs and Policy Commitments: Case Studies of the Ministry of Public Health and Ministry of Education

Throughout the past decade, an innumerable amount of commitments have been made through the various policies and strategic plans in all sectors through the ANDS, NPPs, AMDGs, sector-specific strategies and interim plans. While these policy commitments are a promising first step, translating these commitments into outcomes requires adequate commitment in terms of budget allocations and actual expenditures. As a component of the budget review, consultations were conducted in four provinces looking specifically at two sectors—public health and education—to assess performance and budget priorities against some of these key commitments and targets, as well as to assess peoples' perception of performance and key issues in each sector. An assessment of these priorities identified at the grassroots level against actual allocations in each sector in the 1394 national budget will be analyzed in the extended EPD budget report, as well as the complete community scorecards for each province. It is important to note that

the opinions reflected here are perceptions-based according to the actual experiences of those consulted. However, these community scorecard assessments are meant to provide both an evaluation of progress towards key indicators and provide information on key areas of need to assess the budget priorities of the two sectors.

Ministry of Public Health

Meeting Targets and Input Tracking

In the goal of the Basic Package of Health Services (BPHS) covering 69% of the population set out in the NPP, the government was felt to have done moderately well in Herat, averaging around a perceived 60%, to less in Bamyán around 48%, and very poorly in Nangarhar and Kabul province, where on average those consulted perceived that between 0-30% had access to BPHS due to corruption and a lack of clinics, doctors, or both. In all provinces, those consulted perceived the government to have performed very well and to have met or exceeded its targets in reducing maternal mortality, under 5 mortality, and increase immunization for Diphtheria, Pertussis & Tetanus (DPT) and the measles to children under the age of 1 year old. Across provinces, community members also felt that the target of 50% of deliveries attended by Specialize Birth Attendants had been met, but generally not exceeded. Across all provinces,

though many believed that there are ambulances in each district, it was unanimously agreed that ambulance services are inadequate in terms of the number of ambulances and consistency of service. Similarly, across all provinces those consulted with felt that medicine provided at government clinics was inadequate, either low quality or too expensive, or both.

Key Issues

Key issues in public health sector across the provinces were lack of clinics, lack of ambulances, lack of doctors and medical personnel, qualification of doctors, lack of medicine, quality of medicine, and corruption. Some also reported a lack of medical equipment, lack of monitoring by the government and lack of raising awareness regarding public health issues as major problems. The issues identified also relates to the increased willingness of Afghan citizens to report deficiencies⁵⁵ as their expectations of the GIRoA to provide public goods that meet their needs has increased.

Government Perspective

Though the Department of Public Health in Kabul and Nangarhar refused to cooperate with EPD's budget review research, interviews in Bamyan and Herat demonstrated a disturbing lack of transparency and/or disconnect with the actual situation of citizens. In both provinces, department officials claimed to have completely eliminated maternal and under-5 deaths, and boasted a 100% vaccination rate of children under one year old. They claimed the extension of BPHS beyond the 69% target and claimed accessibility to healthcare in all areas except some with security issues in Herat. In both provinces, officials claimed to have exceeded the 50% target for deliveries attended by Specialized Birth Attendants, and the official in Bamyan even claimed that this figure is currently at 95%. Both claimed to provide maintenance for health facilities, though the official in Bamyan noted that often they are unable to provide assistance due to lack of budget.

In consideration of citizen accounts, the information provided by government departments shows that departments are either intentionally dishonest about their progress and performance, or are out of touch with the realities regarding public health in their province. These are both considerable issues for effective budget planning, ensuring that allocations and expenditures are responsive to citizen's needs, and effective results-based program budgeting and M&E.

Ministry of Education

Meeting Targets and Input Tracking

In the goal of 100% primary enrollment by 2020, across the provinces ACTA members and community members felt that the government was on decent track to achieve this goal, averaging around 50-80% estimated enrollment, though those consulted in Nangarhar and Herat felt that girls' enrollment is still far behind boys. Across provinces, it was reported that the government has not invested nearly enough to meet targets in increasing the capacity and ensuring qualification of teachers, providing remedial courses to prepare women for college entrance exams, and improve literacy. At the higher levels, community members believed that only between 20-50% of teachers had completed 14th year education. Despite policy commitments, no communities believed there are remedial courses to prepare women for college entrance exams, and universally those consulted were of the opinion that despite the ANDS target of improving literacy rates by 50% by 2013, the government had not allocated adequate resources for providing literacy courses. ANDS stipulated that the new curriculum should be developed and all children should have a set of new curriculum textbooks. However, though some communities reported having received new textbooks, textbook shortages were reported in every province and several reported that they were still using outdated curriculum. Furthermore, despite commitments to provide funding to support the development of school sports, all of the consultations reported that there had been no government support in terms of purchasing equipment or providing sports facilities to students.

Key Issues

Key problems in the education sector across provinces were too few schools, unqualified teachers, too few classrooms in schools, and corruption (in teacher recruitment, construction, etc.). Many also reported poor quality curriculum, lack of materials such as desks and chairs, lack of facilities such as laboratories and libraries, and inadequacy of teachers' wages.

Government Perspective

The provincial Department of Education in Kabul refused to cooperate with EPD's budget review research, but in Bamyan, Nangarhar, and Herat, senior staff noted many of the same issues regarding progress in addressing education priorities. Department staff in these provinces estimated enrollment to be at 70% currently, but acknowledged issues with increasing enrollment, particularly of girls. Though officials in Nangarhar and Herat claimed to have

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⁵⁵ TAF, Survey of the Afghan people (2013).

disseminated a complete set of new curriculum textbooks to all children, officials in Bamyan reported that for four years they have been unable to provide any textbooks to students at all. Similarly, those in Nangarhar and Herat reported that the competence of teachers is adequate, with around 70% having completed the 14th grade, but in Bamyan province, with a noted lack of teachers, officials estimated this figure to be somewhere around 50%, reporting that in some cases even those who have completed the 6th grade are accepted as teachers.

In all three provinces, officials felt that government's role in providing literacy courses was inadequate, aside from Nangarhar where the government's assessment was somewhat positive, claiming 195 active literacy courses. In Bamyan, officials felt that literacy rates had been improved, but only in the center without the benefits extending to the districts due to budget issues, and in Herat literacy courses are primarily provided by NGOs rather than the government. Government officials claimed to provide sports equipment instead of budget in Nangarhar and Herat, but not in Bamyan, again noting the role of NGOs in supporting school sports. The departments also claimed to provide maintenance in Nangarhar and Herat, but reported limited capacity due to budget constraints in Bamyan.

Teachers' wages were also reported as adequate and timely in Nangarhar and Herat, but an average 3-month delay and disproportionate expenses for actually delivering wages was noted in Bamyan.

Though the departments seemed somewhat in touch with the issues in the education sector, there was a general disconnect evidenced in the assessment from communities and citizens and the government officials in Nangarhar and Herat. While the government official in Bamyan was very aware and transparent of the issues facing the people of Bamyan and the Department of Education, in Nangarhar and Herat officials were either less open about their issues or out of touch with the actual situation on the ground.

The widely noted discrepancies between government and citizen accounts, particularly in the public health sector, at the very least evidences a lack of meaningful community consultation and issues for budget planning in consideration of actual performance and needs. It is important to note that though this assessment only covers the public health and education sectors, these are case studies and in consideration of the institutional and capacity constraints noted throughout this review, this issue is likely present across all sectors.

4.7 Involvement of Civil Society

The Ministry of Finance has held workshops with civil society in 1392 and 1393, and about the 1394 budget. According to the GIRA, the Civil Society Workshops are meant to promote public sector accountability and transparency as well as educate and engage civil society in budget planning, execution, and monitoring processes. The 1394 Civil Society Workshop was held on July 23rd 2014 with presentations on GRB and the 1393 budget and 1394 ceilings. 21 organizations were invited, including both national and international organizations. According to the agenda, after the presentations from MoF, there was a 30-minute session for civil society to give recommendations and a 20-minute Q&A. All together, the workshop lasted a half-day.

The MoF also held a workshop in November 2013 on the

1393 budget and the new policy on provincial budgeting and provincial allocation. This workshop also lasted a half-day, with 15-minute Q&A sessions after each presentation. 28 organizations, including 10 media networks, national and international organizations, and one university were invited.

While these efforts to reach out to civil society are a promising step, two half-day workshops and a total of 80 minutes allocated for Q&A and recommendations from civil society in one year is an inadequate effort to involve civil society in budget planning, execution, and monitoring of the national budget. This was substantiated by several CSOs in the surveys conducted by EPD, as one CSO called for more "participation in planning" and another CSO for "regular and systematic involvement of CSOs in the budget processes".

Recommendations

In consideration of the findings of this annual budget review, EPD issues the following recommendations:

Government

Fiscal Sustainability

Domestic Revenue

- Conduct a performance assessment of the senior management and heads of revenue-related departments and undertake meaningful restructuring and/or replacement of staff as a mean to curb corruption and improve revenue collection
- Assess and map the revenue potential of each province and line ministry and establish a system to monitor discrepancies between the revenue potential and actual collected revenue, and establish a proper system for monitoring of revenue mobilization and collection
- Reassess and revise the Mining Law that was signed in August to ensure transparency and accountability in the mining sector and ensure the actualization of revenue potential in this sector
- Set realistic revenue collection targets in order to ensure fiscal sustainability as the revenue targets have been consistently missed by the GIRA
- Ensure effective implementation of the VAT

O&M

- Map the O&M costs of current, incomplete, and completed projects for both security and non-security infrastructure and facilities and come up with a clear, realistic estimation of O&M
- Prioritize O&M within the budget in favor of new development projects after finalizing the mapping exercise of O&M costs as a means to ensure that the existing infrastructure will be maintained

Budget Execution

- Streamline procedures of allotments and expenditures, especially for the development budget, between central and provincial level government authorities as a means to improve the effectiveness of the budget execution process
- Ensure that provincial authorities receive proper coaching and mentoring to build their capacity for the timely execution of allocate resources

Donor Assistance and Discretionary Authority

- Negotiate with international donors to increase on-budget donor assistance above 50% and to have more discretionary authority in the development budget, while simultaneously demonstrating to donors that efforts are being made to curb corruption, establish effective M&E systems, institutionalize merit-based recruitment, increase budget execution, and meet budget reform targets.
- Provide provinces with a realistic level of discretionary authority in procurement and spending on certain items such as O&M to ensure that deficiencies in infrastructure and emergency shortages/repairs can be quickly resolved without necessitating the interference of the central-level bureaucracy
- Ensure oversight through a centralized procurement monitoring mechanism in line with the recently announced Central Procurement Office, but avoid further centralizing procurement besides controlling procurement for big national projects in mining, telecommunications etc. at the central level

PFM and Reforms

Transparency and Accountability

- Ensure transparency and accountability by enacting the Access to Information Law and provide access to information through other means than the Internet to improve the dissemination of information through contextually appropriate mediums such as radio, mobile phones, TV and the distribution of written budget information.
- Improve transparency by mandating provincial departments to share information with CSOs and citizens to ensure the diffusion of budget information and transparency and accountability at the local level as bureaucratic procedures currently prevent them from doing so.

Monitoring and Evaluation

- Reform the auditing system to ensure effective auditing in line with international standards
- Establish a government-wide results-based M&E system to ensure the transparency, accountability and effectiveness of programs
- Collaborate with CSOs for M&E to capitalize on the potential of CSOs in terms of on-the-ground monitoring and reporting and make effective use of existing resources

Provincial Budgeting

- Incorporate provincial inputs into the Budget Circulars (BCs) as an obligatory inclusion and ensure that PDPs are developed and utilized in the budget formulation process
- Include a budget breakdown (for both the operating and development budget) per province in the national budget which is sent to Parliament

Program Budgeting

- Mainstream program budgeting and revise AFMIS accordingly as a means to finalize the transition from traditional to program budgeting
- Streamline program budgeting into all reporting rather than only providing sector-wide breakdowns, including budget execution rate and fiscal reporting

Gender-Responsive Budgeting

- Expand the GRB pilot to all line ministries and reassess the GRB guidelines to ensure that other GRB components such as a gender budget statement and a breakdown of gender-specific beneficiaries are included

- Collect gender-disaggregated data with an effective M&E system streamlined into AFMIS and other existing platform and results-based budgeting as a means to better map and address gendered needs and constraints
- Produce a meaningful, realistic gender budget statement that publicly reports a breakdown of the budget, programs, and beneficiaries by gender and justifies the budget in terms of promoting gender equality across all sectors

Involvement of CSOs

- Strengthen collaboration between CSOs to monitor revenue collection, conduct provincial needs assessments, share and collect data, and capitalize on each other’s expertise
- Advocate for the institutionalization of active consultations, not only from MoF but also with line ministries, with both implementing partners and non-partner CSOs
- Build the capacity of CSOs to function as oversight mechanisms and fight corruption in order to improve budget efficiency

International Donors

- Continue to assist the GIRoA in becoming more effective through its efforts to increase domestic revenues, map O&M costs, improve budget execution, curb corruption, implement budget reforms and establish a government-wide M&E system
- Include budget oversight and monitoring as a priority in supporting CSOs
- Increase the GIRoA’s discretionary authority within the development budget conditional on the GIRoA’s efforts and improvements made on the above-mentioned indicators
- Increase on-budget support above 50% to improve the government’s legitimacy to govern and encourage the accountability of budget spending as on-budget support – in contrast with off-budget support – has to be in compliance with government procedures and oversight mechanisms such as the budget cycle, Procurement Law, Public Finance and Expenditure Law and audits
- Ensure that the government’s domestic revenue targets are realistic expectations since these targets have been consistently missed
- Ensure effective handover of infrastructure and facilities to the GIRoA, including adequate notice and ensuring government financial planning for O&M, including formerly mishandled projects such as those handed over during PRT closure ahead of government planning

Civil Society Organizations

- Develop an awareness process of the annual budget, budget process, budget reforms and key issues concerning public finance management and fiscal sustainability
- Support a cooperative approach between CSOs and with the government instead of an adversarial attitude as a means to jointly strive towards effective budgeting and good governance.

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EQUALITY for Peace and Democracy (EPD) is a nonprofit, non-governmental organization dedicated to empowering women and youth at the community and policy levels in Afghanistan. EPD’s mission is to empower and strengthen women and youth at the community and policy levels for building coalitions and networks and promoting human rights, peace and good governance. EPD focuses on the strategic areas of peace and security, good governance, and human rights.

EPD’s Afghans’ Coalition for Transparency and Accountability (ACTA) platform is a coalition of experts and community based youth groups, women, elders and religious leaders who voluntarily promote transparency and accountability for public policies, strategies and resources. ACTA networks monitor the implementation of projects and service delivery in their communities by relevant institutions and hold them accountable. EPD assists in establishing these networks, trains the members in anti-corruption, transparency, accountability, and community-based monitoring, and assists them in developing and implementing their advocacy and monitoring action plans.

Annex A: Sector Breakdown by Ministry

Sector - Ministry	Figures in thousands (000)						% Total budget
	Regular budget		Development		Total		
	AFN	USD	AFN	USD	AFN	USD	
Security Sector							
National Security Council	88,482	1,552	-	-	88,482	1,552	0%
NDS	11,897,874	208,735	2,296	40	11,900,170	208,775	3%
Protect President	977,339	17,146	44,120	774	1,021,459	17,920	0%
Ministry of Foreign Affairs	2,854,136	50,073	182,628	3,204	3,036,764	53,277	1%
Mol	69,833,679	1,225,152	13,173,358	231,112	83,007,037	1,456,264	18%
Financed by foreign aid	58,249,633	1,021,923	-	-	58,249,633	1,021,923	
Financed from domestic revenues	11,584,046	203,229			11,584,046	203,229	
MoD	97,714,722	1,714,293	6,726,373	118,007	104,441,095	1,832,300	23%
Financed by foreign aid	86,276,176	1,513,617			86,276,176	1,513,617	
Financed from domestic revenues	11,438,546	200,676			11,438,546	200,676	
Total	183,366,233	3,216,951	20,128,775	353,136	203,495,008	3,570,088	44%
Governance, rule of law and Human rights							
The High Authority against Corruption	100,000	1,754			100,000	1,754	0%
Independent Directorate of Local Governance	2,208,036	38,737	313,938	5,508	2,521,974	44,245	1%
Executive Office	165,000	2,895	-	-	165,000	2,895	0%
Office of the President	1,802,133	31,616	24,352	427	1,826,485	32,044	0%
General Directorate of Administration	731,987	12,842			731,987	12,842	0%
Supreme Court	2,960,216	51,934	245,871	4,314	3,206,088	56,247	1%
Elders - National Council	498,276	8,742			498,276	8,742	0%
WJ - National Council	1,201,708	21,083	824	14	1,202,532	21,097	0%
Office of the Attorney General	1,072,533	18,816	314,614	5,520	1,387,147	24,336	0%
Ministry of Hajj and Religious Culture	808,062	14,177			808,062	14,177	0%
Minister of State for Parliamentary Affairs	40,000	702			40,000	702	0%
Department of Justice	600,213	10,530	387,518	6,799	987,731	17,329	0%
Administrative Reform and Civil Service Commission	330,283	5,794	305,715	5,363	635,998	11,158	0%
IEC	145,518	2,553	62,700	1,100	208,218	3,653	0%
Commission Oversight constitution	41,800	733			41,800	733	0%
Afghanistan Independent Human Rights Commission	67,777	1,189			67,777	1,189	0%
Electoral Complaints Commission	30,000	526			30,000	526	0%
Total	12,803,544	224,624	1,655,532	29,044	14,459,076	253,668	3%
Infrastructure and natural resources sector							
Ministry Fvaydamh	3,551,683	62,310	24,093,580	422,694	27,645,262	485,005	6%
National Bureau of Environmental Protection	185,160	3,248	65,997	1,158	251,157	4,406	0%
Department of Civil Aviation	344,100	6,037	2,887,189	50,652	3,231,289	56,689	1%
New independent board cable			71,285	1,251	71,285	1,251	0%
Afghanistan Breshna company			16,325,358	286,410	16,325,358	286,410	4%
President of Geodesy and Cartography	125,827	2,207			125,827	2,207	0%
Kabul Municipality			3,797,839	66,629	3,797,839	66,629	1%
Company supply and canalization			325,292	5,707	325,292	5,707	0%
Ministry of Urban Development	260,800	4,575	553,101	9,704	813,901	14,279	0%
Department of Energy and water	560,575	9,835	8,501,238	149,145	9,061,813	158,979	2%
Ministry of Transportation	260,000	4,561			260,000	4,561	0%

Ministry of Communication and Information technologies	468,075	8,212	368,187	6,459	836,262	14,671	0%
Ministry of Mines and petroleum	499,678	8,766	1,871,758	32,838	2,371,436	41,604	1%
Atomic Energy Commission of Afghanistan	39,353	690			39,353	690	0%
Total	6,295,250	110,443	58,860,825	1,032,646	65,156,075	1,143,089	14%

Education Sector							
Ministry of Higher Education	4,601,398	80,726	1,323,596	23,221	5,924,994	103,947	1%
Ministry of Education	30,162,853	529,173	17,494,267	306,917	47,657,120	836,090	10%
Academy of Sciences of Afghanistan	170,563	2,992			170,563	2,992	0%
Department of Physical Education and Sport	266,891	4,682	75,406	1,323	342,297	6,005	0%
General Directorate of National Radio and Television	343,000	6,018	86,204	1,512	429,204	7,530	0%
Ministry of Information and Culture	450,391	7,902	45,056	790	495,447	8,692	0%
Total	35,995,095	631,493	19,024,529	333,764	55,019,624	965,257	12%

Health Sector							
Ministry of Public Health	2,791,931	48,981	18,217,023	319,597	21,008,954	368,578	5%
Total	2,791,931	48,981	18,217,023	319,597	21,008,954	368,578	5%

Agriculture and Rural Development							
Afghanistan Land	212,500	3,728	60,073	1,054	272,573	4,782	0%
Ministry of Rural Rehabilitation and Development	484,500	8,500	35,551,454	623,710	36,035,954	632,210	8%
Ministry of Agriculture, Irrigation and Livestock	1,041,626	18,274	7,118,517	124,886	8,160,143	143,160	2%
Ministry of Counter Narcotics	169,452	2,973	1,881,711	33,012	2,051,163	35,985	0%
Total	1,908,079	33,475	44,611,755	782,662	46,519,834	816,137	10%

Social Protection Sector							
National Office of Disaster Preparedness	95,484	1,675			95,484	1,675	0%
Department of cohesion Kochi	58,780	1,031			58,780	1,031	
Ministry of Women's Affairs	184,578	3,238			184,578	3,238	
Department of Border and Tribal	396,919	6,963	93,235	1,636	490,154	8,599	
Ministry of Refugees and Repatriation	210,750	3,697	43,347	760	254,097	4,458	
Ministry of Labour, Social Affairs, Martyrs and Disabled	18,882,090	331,265	856,288	15,023	19,738,378	346,287	4%
Total	19,828,600	347,870	992,870	17,419	20,821,471	365,289	5%

Economy and Private Development Sector							
Department of Finance	1,829,194	32,091	4,918,564	86,291	6,747,758	118,382	1%
Central Statistics Office	146,336	2,567	307,503	5,395	453,839	7,962	0%
Office facilities to support small funding sources in Afghanistan			1,680,960	29,491	1,680,960	29,491	0%
Afghanistan Investment Support Agency			57,000	1,000	57,000	1,000	0%
Afghanistan's Independent National Bureau of Standards	69,306	1,216	69,306			1,216	0%
Control and Audit Office	136,439	2,394	797,002	13,982	933,441	16,376	0%
Department of Economics	252,335	4,427	243,088	4,265	495,423	8,692	0%
Department of Trade and Industry	408,942	7,174	462,423	8,113	871,365	15,287	0%
Office of the National Economic Council	49,500	868	65,684	1,152	115,184	2,021	0%
Total	2,892,052	50,738	8,532,224	149,688	11,424,276	200,426	2%

Total Appropriations	265,880,785	4,664,575	172,023,533	3,017,957	437,904,318	7,682,532	95%
Contingency Code	9,868,298	173,128	10,978,309	192,602	20,846,607	365,730	5%
TOTAL	275,749,083	4,837,703	183,001,842	3,210,559	458,750,925	8,048,262	100%